

**TUSTIN UNIFIED  
SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2016**



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*For the Fiscal Year Ended June 30, 2016*  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Tustin Unified School District  
Tustin, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District, as of and for the fiscal 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.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District, as of June 30, 2016, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

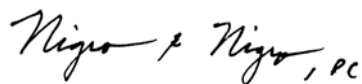
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 45, schedule of funding progress on page 46, schedule of proportionate share of the net pension liability on page 47, and schedule of contributions on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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 is also not a required part of the basic financial statements. The supplementary information on pages 52 to 55 and the schedule of expenditures of federal awards on page 56 are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 51 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.



Murrieta, California  
December 12, 2016

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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This discussion and analysis of Tustin Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's net position increased by roughly \$28.5 million or 7.2% over the course of the year.
- Overall government-wide revenues were \$284.2 million, and overall expenses were \$255.7 million.
- The total cost of basic programs was \$255.7 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$199.8 million.
- The District increased its outstanding long-term debt \$39.3 million or 11.3%. This was primarily due to adjustments in the net pension liability.
- Average daily attendance (ADA) in grades K-12 increased by 88, or 0.4%.

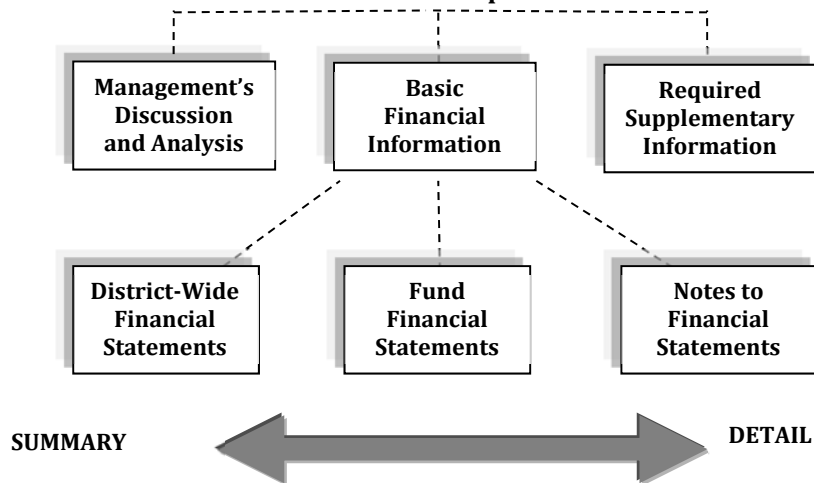
**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - The *fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

**Figure A-1. Organization of Tustin Unified School District's Annual Financial Report**

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





**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

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

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

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

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

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

**District-Wide Statements**

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

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

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

**Fund Financial Statements**

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

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

The District has two kinds of funds:

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

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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

**Net Position.** The District's combined net position was higher on June 30, 2016, than it was the year before – increasing 7.2% to \$425.7 million (See Table A-1).

**Table A-1**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2016</b>	<b>2015*</b>	
Current assets	\$ 240.9	\$ 216.2	\$ 24.7
Capital assets	580.2	565.9	14.3
<b>Total assets</b>	<b>821.1</b>	<b>782.1</b>	<b>39.0</b>
<b>Deferred outflows</b>	<b>42.4</b>	<b>18.4</b>	<b>24.0</b>
Current liabilities	26.9	17.1	9.8
Long-term liabilities	387.3	348.0	39.3
<b>Total liabilities</b>	<b>414.2</b>	<b>365.1</b>	<b>49.1</b>
<b>Deferred inflows</b>	<b>23.6</b>	<b>38.2</b>	<b>(14.6)</b>
Net position			
Net investment in capital assets	408.6	415.0	(6.4)
Restricted	115.9	111.0	4.9
Unrestricted	(98.8)	(128.8)	30.0
<b>Total net position</b>	<b>\$ 425.7</b>	<b>\$ 397.2</b>	<b>\$ 28.5</b>

\* As restated

**Changes in net position, governmental activities.** The District's total revenues increased 20.8% to \$284.2 million (See Table A-2). The increase is due primarily to increases in state and local funding.

The total cost of all programs and services increased 13.6% to \$255.7 million. The District's expenses are predominantly related to educating and caring for students, 74.8%. The purely administrative activities of the District accounted for just 2.8% of total costs. A significant contributor to the increase in costs was increases in salary and benefits.

**Table A-2**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2016</b>	<b>2015</b>	
Total Revenues	\$ 284.2	\$ 235.2	\$ 49.0
Total Expenses	255.7	225.1	30.6
Increase (decrease) in net position	\$ 28.5	\$ 10.1	\$ 18.4

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$216.3 million, which is above last year's ending fund balance of \$202.6 million. The primary cause of the increased fund balance is increased state and local funding.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)**

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$31.3 million primarily to reflect federal and state budget actions
- Expenses – increased about \$0.9 million as a result of district wide budget actions.

The District's final budget for the General Fund anticipated that revenues would exceed expenditures by about \$26.2 million, and actual results matched expectations.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2015-16 the District had invested \$27.5 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$13.1 million.

**Table A-3: Capital Assets at Year-End, Net of Depreciation**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2016</b>	<b>2015</b>	
Land	\$ 176.1	\$ 176.1	\$ -
Improvement of sites	32.6	33.1	(0.5)
Buildings	327.2	327.2	0.0
Equipment	6.6	6.5	0.1
Construction in progress	37.7	23.0	14.7
<b>Total</b>	<b>\$ 580.2</b>	<b>\$ 565.9</b>	<b>\$ 14.3</b>

**Long-Term Debt**

At year-end the District had \$387.3 million in general obligation bonds, compensated absences, other postemployment benefits, workers' compensation claims, and net pension liability – an increase of 11.3% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

**Table A-4: Outstanding Long-Term Debt at Year-End**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2016</b>	<b>2015</b>	
General obligation bonds	\$ 194.5	\$ 191.0	\$ 3.5
Workers compensation claims	4.1	4.0	0.1
Compensated absences	1.4	1.3	0.1
Net pension liability	178.0	143.7	34.3
Other postemployment benefits	9.3	8.0	1.3
<b>Total</b>	<b>\$ 387.3</b>	<b>\$ 348.0</b>	<b>\$ 39.3</b>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**GASB 68**

In 2015, the District implemented the new required pension standard known as "GASB 68". This standard requires government entities across the country to change the method of accounting and reporting for pensions. Before GASB 68, the District reported pension expense based solely on annual contributions to CalSTRS and CalPERS. While the District continues that practice within its governmental funds, there are new requirements for how those expenditures are measured within the "government-wide" financial statements. While the governmental funds continue to use the "modified accrual" basis of accounting, the "government-wide" financial statements use the "full accrual" accounting method. Therefore, pension expense is based on a new measure which requires the District to measure its "proportionate share" of the *expenses, net pension liability, deferred outflows of resources, and deferred inflows of resources* that exist within the CalSTRS and CalPERS pension plans' financial statements. These financial statement elements are unique in that the District has no control over them. The \$178 million *net pension liability* represents the District's 0.208% share of the total CalSTRS liability and 0.2573% share of the total CalPERS liability. The impact of this new liability is not felt in the General Fund and does not affect reserves, other than the fact that the employer contribution rates for CalSTRS and CalPERS are projected to increase significantly over the next few years to help reduce the overall pension plan unfunded liabilities.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

**Evolution of the Budget**

The Legislature passed the final budget package on June 15, 2016. Total reserves in the final budget package were lower by only \$36 million compared to the Governor's proposal in May. Various choices were made to shift spending priorities compared to the Governor's proposal. Budget savings resulted from (1) reduced spending on state office buildings, (2) shifting funding for the construction of local jails from General Fund to bond funds, and (3) reduced retiree health spending due to lower than expected healthcare costs. Correspondingly, the final budget deal reflected higher spending for affordable housing programs, repealing the MFG policy, and various public safety programs.

The Governor signed the *2016-17 Budget Act* and 14 budget-related bills on June 27, 2016 and July 1, 2016. The Governor did not veto any appropriations.

**Proposition 98**

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. Below, we provide an overview of Proposition 98 funding and spending changes under the enacted budget package. We then highlight Proposition 98 spending changes specifically for K-12 education.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**Minimum Guarantee**

***Proposition 98 Funding Revised Upward Across Three-Year Period***

Proposition 98 establishes a minimum funding requirement commonly called the minimum guarantee. Compared with the estimates from June 2015, the 2014-15 and 2015-16 guarantees have increased by \$843 million and \$641 million, respectively. These upward revisions are due primarily to increases in state revenue relative to the amounts assumed in last year's budget package. The estimate of the 2016-17 minimum guarantee is \$3.5 billion (5.1 percent) higher than the *2015-16 Budget Act* level.

***Two Key Drivers of Increase in 2016-17***

Total funding for all segments in 2016-17 is \$71.9 billion, a \$2.8 billion (4.1 percent) increase above the revised 2015-16 level. This change in the guarantee reflects 3.6 percent growth in the "Test 3 factor" combined with a supplemental appropriation of \$502 million. The Test 3 factor consists of 3.1 percent growth in per capita General Fund plus an additional 0.5 percent increase set forth in the State Constitution. The supplemental appropriation ensures that the minimum guarantee grows at least as quickly as the rest of the state budget.

***Increase Covered About Evenly From Higher State General Fund and Local Property Tax Revenue***

Of total Proposition 98 funding in 2016-17, \$51.1 billion is state General Fund and \$20.8 billion is local property tax revenue. From 2015-16 to 2016-17, state General Fund increases by \$1.3 billion (accounting for slightly less than half of the \$2.8 billion increase in the guarantee) and local property tax revenue increases by \$1.5 billion (accounting for slightly more than half of the increase in the guarantee). The primary factor explaining the growth in property tax revenue is the strong 6.2 percent increase in assessed property values. In addition, the budget plan assumes property tax revenue increases by \$419 million due to the triple flip ending, thereby completing the shift of revenue from cities, counties, and special districts to school districts and community colleges.

***New Maintenance Factor Created in 2016-17***

In 2014-15, General Fund tax revenue increased by 11 percent over the prior-year level, resulting in a maintenance factor payment of \$5.7 billion—the largest payment the state has ever made. In 2015-16, the budget assumes the state makes an additional maintenance factor payment of \$379 million, reducing the total outstanding obligation to \$155 million. In 2016-17, the budget assumes the state creates \$746 million in new maintenance factor. The amount of new maintenance factor created is based on the difference between the Proposition 98 Test 2 and Test 3 factors. In 2016-17, growth in the Test 2 factor (per capita personal income) is strong (5.4 percent) relative to growth in the Test 3 factor (3.6 percent).

**K-12 Education**

***\$63.3 Billion Proposition 98 Funding for K-12 Education and Preschool Combined***

This 2016-17 level is \$2.5 billion (4.1 percent) more than revised 2015-16 funding and \$3.7 billion (6.3 percent) more than the *2015-16 Budget Act* level. The budget increases funding per student by \$440 (4.3 percent) over the *2015-16 Budget Act* level, bringing Proposition 98 funding per student up to \$10,657.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2016*

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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**New Spending**

***Large Increase for LCFF***

The \$2.9 billion augmentation brings total funding for implementing LCFF for school districts and charter schools up to \$55.8 billion, a 5.7 percent increase over the revised 2015-16 level. The administration estimates this funding will close 54 percent of the gap between current funding levels and LCFF target rates, bringing LCFF to 96 percent of its full implementation cost. School districts and charter schools may use LCFF monies for any educational purpose.

***Significant Discretionary One-Time Funding***

The largest one-time augmentation for K-12 education is \$1.3 billion that LEAs may use for any locally determined purpose. Funding would be distributed based on average daily attendance. If an LEA has unpaid mandate claims, funding would pay all or a portion of those claims. As many LEAs do not have any unpaid claims, we estimate only about half (\$617 million) of the funding provided would reduce the K-12 mandates backlog. We estimate the outstanding K-12 mandates backlog will be \$987 million at the end of 2016-17.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2016-17 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (714) 730-7301.

**TUSTIN UNIFIED SCHOOL DISTRICT***Statement of Net Position**June 30, 2016*

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	Total Governmental Activities
<b>ASSETS</b>	
Cash	\$ 223,500,726
Investments	2,941,268
Accounts receivable	13,987,826
Inventories	436,031
Non-depreciable assets	213,810,053
Depreciable assets	499,528,844
Less, accumulated depreciation	<u>(133,120,042)</u>
Total assets	<u>821,084,706</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows from pensions	32,237,630
Deferred amount on refunding	<u>10,159,794</u>
Total deferred outflows	<u>42,397,424</u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	26,558,378
Unearned revenue	340,093
Long-term liabilities	
Due or payable within one year	7,360,739
Due or payable after one year	<u>379,963,259</u>
Total liabilities	<u>414,222,469</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows from pensions	<u>23,612,950</u>
<b>NET POSITION</b>	
Net investment in capital assets	408,621,938
Restricted for:	
Capital projects	85,089,594
Debt service	9,264,309
Categorical programs	17,459,104
Workers' compensation claims	4,085,152
Unrestricted	<u>(98,873,386)</u>
Total net position	<u>\$ 425,646,711</u>



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2016*

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instructional services:					
Instruction	\$ 140,363,586	\$ 7,466	\$ 24,951,368	\$ 4,030,642	\$ (111,374,110)
Instruction-related services:					
Supervision of instruction	10,096,702	7,070	3,107,823	-	(6,981,809)
Instructional library, media and technology	1,133,095	-	-	-	(1,133,095)
School site administration	14,537,285	1,948	698,832	-	(13,836,505)
Pupil support services:					
Home-to-school transportation	3,992,583	-	-	-	(3,992,583)
Food services	7,679,467	1,835,802	5,519,232	-	(324,433)
All other pupil services	13,503,261	2,268	3,603,489	-	(9,897,504)
General administration services:					
Data processing services	1,792,547	-	8,525	-	(1,784,022)
Other general administration	5,464,497	70,173	1,437,743	-	(3,956,581)
Plant services	22,878,261	163,479	4,297,972	-	(18,416,810)
Ancillary services	1,179,726	-	1,089,464	-	(90,262)
Community services	1,345,421	-	698,611	-	(646,810)
Interest on long-term debt	11,351,741	151,834	-	-	(11,199,907)
Other outgo	7,212,827	-	4,174,675	-	(3,038,152)
Depreciation (unallocated)	13,161,572	-	-	-	(13,161,572)
Total Governmental Activities	\$ 255,692,571	\$ 2,240,040	\$ 49,587,734	\$ 4,030,642	(199,834,155)
<b>General Revenues:</b>					
Property taxes					126,629,832
Federal and state aid not restricted to specific purpose					90,289,628
Interest and investment earnings					788,851
Miscellaneous					10,621,234
Total general revenues					228,329,545
Change in net position					28,495,390
Net position - July 1, 2015, as originally stated					398,045,693
Adjustments for restatement (Note 13)					(894,372)
Net position - July 1, 2015, as restated					397,151,321
Net position - June 30, 2016					\$ 425,646,711

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2016*

	General Fund	Building Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 96,658,149	\$ 17,128,054	\$ 50,560,170	\$ 9,683,176	\$ 49,471,177	\$ 223,500,726
Investments	-	-	-	2,939,974	1,294	2,941,268
Accounts receivable	10,632,197	11,786	33,221	1,664,346	1,421,572	13,763,122
Due from other funds	547,120	-	-	-	6,270,474	6,817,594
Inventories	381,367	-	-	-	54,664	436,031
Total Assets	<u>\$ 108,218,833</u>	<u>\$ 17,139,840</u>	<u>\$ 50,593,391</u>	<u>\$ 14,287,496</u>	<u>\$ 57,219,181</u>	<u>\$ 247,458,741</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 11,399,806	\$ 3,169,607	\$ 1,047,232	\$ 7,594,218	\$ 812,631	\$ 24,023,494
Due to other funds	6,270,239	5,765	-	-	541,590	6,817,594
Unearned revenue	340,093	-	-	-	-	340,093
Total Liabilities	<u>18,010,138</u>	<u>3,175,372</u>	<u>1,047,232</u>	<u>\$ 7,594,218</u>	<u>1,354,221</u>	<u>31,181,181</u>
<b>Fund Balances</b>						
Nonspendable	531,367	-	-	-	54,664	586,031
Restricted	14,393,766	13,964,468	49,546,159	6,693,278	47,818,418	132,416,089
Committed	58,440,500	-	-	-	218,633	58,659,133
Assigned	10,188,040	-	-	-	576,859	10,764,899
Unassigned	6,655,022	-	-	-	7,196,386	13,851,408
Total Fund Balances	<u>90,208,695</u>	<u>13,964,468</u>	<u>49,546,159</u>	<u>6,693,278</u>	<u>55,864,960</u>	<u>216,277,560</u>
Total Liabilities and Fund Balances	<u>\$ 108,218,833</u>	<u>\$ 17,139,840</u>	<u>\$ 50,593,391</u>	<u>\$ 14,287,496</u>	<u>\$ 57,219,181</u>	<u>\$ 247,458,741</u>

# TUSTIN UNIFIED SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2016

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**Total fund balances - governmental funds** \$ 216,277,560

Amounts reported for governmental *activities* in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets at historical cost	713,338,897	
Accumulated depreciation	<u>(133,120,042)</u>	
Net:		580,218,855

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (2,534,884)

Deferred amounts of refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: 10,159,794

In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned. 224,704

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

General obligation bonds	194,531,383	
Workers' compensation claims	4,085,152	
Compensated absences	1,472,759	
Other postemployment benefits	9,274,510	
Net pension liability	<u>177,960,194</u>	
		(387,323,998)

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

Deferred outflows	32,237,630	
Deferred inflows	<u>(23,612,950)</u>	
		<u>8,624,680</u>

**Total net position - governmental activities** \$ 425,646,711

# TUSTIN UNIFIED SCHOOL DISTRICT

## Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2016

	General Fund	Building Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
LCFF sources	\$ 185,082,040	\$ -	\$ -	\$ -	430,000	\$ 185,512,040
Federal sources	8,555,720	-	-	-	6,760,696	15,316,416
Other state sources	42,870,304	-	4,030,642	-	2,459,417	49,360,363
Other local sources	10,643,952	151,427	340,607	4,049,591	19,137,294	34,322,871
<b>Total Revenues</b>	<b>247,152,016</b>	<b>151,427</b>	<b>4,371,249</b>	<b>4,049,591</b>	<b>28,787,407</b>	<b>284,511,690</b>
<b>EXPENDITURES</b>						
Current:						
Instruction	135,565,140	-	-	-	1,170,683	136,735,823
Instruction-related services:						
Supervision of instruction	9,876,691	-	-	-	14,274	9,890,965
Instructional library, media and technology	1,070,865	-	-	-	-	1,070,865
School site administration	13,842,626	-	-	-	475,063	14,317,689
Pupil support services:						
Home-to-school transportation	3,991,028	-	-	-	-	3,991,028
Food services	34,213	-	-	-	7,587,895	7,622,108
All other pupil services	13,113,561	-	-	-	82,676	13,196,237
Ancillary services	1,175,427	-	-	-	-	1,175,427
Community services	427,722	-	-	-	910,942	1,338,664
Enterprise activities	-	-	-	-	4,891	4,891
General administration services:						
Data processing services	2,218,242	-	-	-	-	2,218,242
Other general administration	8,343,573	-	-	-	-	8,343,573
Plant services	21,696,785	-	-	-	115,842	21,812,627
Transfers of indirect costs	(429,229)	-	-	-	429,229	-
Capital Outlay	6,740,226	12,161,519	6,451,741	373,579	1,840,556	27,567,621
Intergovernmental transfers	2,973,940	-	-	-	-	2,973,940
Debt Service:						
Interest	-	-	-	-	5,495,505	5,495,505
Principal	-	-	-	-	7,958,439	7,958,439
Issuance costs	-	-	-	-	406,421	406,421
<b>Total Expenditures</b>	<b>220,640,810</b>	<b>12,161,519</b>	<b>6,451,741</b>	<b>373,579</b>	<b>26,492,416</b>	<b>266,120,065</b>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	26,511,206	(12,010,092)	(2,080,492)	3,676,012	2,294,991	18,391,625
<b>OTHER FINANCING SOURCES (USES)</b>						
Interfund transfers in	-	-	-	-	6,250,831	6,250,831
Interfund transfers out	(6,250,831)	-	-	-	-	(6,250,831)
Proceeds from refunding bonds	-	-	-	-	41,740,000	41,740,000
Payment to escrow agent for defeased debt	-	-	-	-	(50,037,605)	(50,037,605)
Premiums from issuance of debt	-	-	-	-	8,704,026	8,704,026
Transfers to fiduciary fund	-	-	-	(4,238,887)	-	(4,238,887)
All other financing sources	-	-	-	-	32,087	32,087
<b>Total Other Financing Sources and Uses</b>	<b>(6,250,831)</b>	<b>-</b>	<b>-</b>	<b>(4,238,887)</b>	<b>6,689,339</b>	<b>(3,800,379)</b>
<b>Net Change in Fund Balances</b>	<b>20,260,375</b>	<b>(12,010,092)</b>	<b>(2,080,492)</b>	<b>(562,875)</b>	<b>8,984,330</b>	<b>14,591,246</b>
Fund Balances, July 1, 2015, as originally stated	70,011,020	25,974,560	51,626,651	8,150,525	46,817,930	202,580,686
Adjustments for Restatement (Note 13)	(62,700)	-	-	(894,372)	62,700	(894,372)
Fund Balances, July 1, 2015, as restated	69,948,320	25,974,560	51,626,651	7,256,153	46,880,630	201,686,314
Fund Balances, June 30, 2016	\$ 90,208,695	\$ 13,964,468	\$ 49,546,159	\$ 6,693,278	\$ 55,864,960	\$ 216,277,560

**TUSTIN UNIFIED SCHOOL DISTRICT**

*Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

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**Total net change in fund balances - governmental funds** \$ 14,591,246

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	27,460,046	
Depreciation expense	<u>(13,161,572)</u>	
Net		14,298,474

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

(33,612)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

40,728,662

In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, including premiums, were:

(50,444,026)

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period that it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

2,501,115

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

477,949

In governmental funds, accreted interest on general obligation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was:

3,639,398

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 were:

(1,322,405)

The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on the refunding and are amortized over the life of the liability. Deferred amounts on refunding exceeded the amount amortized during the year by:

8,515,020

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

(4,250,603)

In the statement of activities, certain liabilities such as compensated absences and workers' compensation claims liabilities, 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*).

(205,828)

**Change in net position of governmental activities** \$ 28,495,390

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Statement of Fiduciary Net Position*  
*June 30, 2016*

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	<b>Agency Funds</b>			<b>Totals</b>
	<b>Student Body Funds</b>	<b>IRC Section 125 Fund</b>	<b>Debt Service Fund for Special Tax Bonds</b>	
<b>Assets</b>				
Cash	\$ 693,141	\$ 65,000	\$ 13,936,648	\$ 14,694,789
Investments	-	-	29,565,603	29,565,603
Inventories	22,915	-	-	22,915
Due from Governmental Funds	-	-	7,593,365	7,593,365
Prepaid expenses	19,950	-	-	19,950
<b>Total Assets</b>	<b>\$ 736,006</b>	<b>\$ 65,000</b>	<b>\$ 51,095,616</b>	<b>\$ 51,896,622</b>
<b>Liabilities</b>				
Due to student groups	\$ 731,010	\$ -	\$ -	\$ 731,010
Accounts payable	4,996	-	-	4,996
Due to employees	-	65,000	-	65,000
Due to bondholders	-	-	51,095,616	51,095,616
<b>Total Liabilities</b>	<b>\$ 736,006</b>	<b>\$ 65,000</b>	<b>\$ 51,095,616</b>	<b>\$ 51,896,622</b>

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tustin Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

#### A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Tustin Unified School District, this includes general operations, food service, and student related activities of the District.

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 units have 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 are included in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Tustin USD Financing Authority (the Authority) and Tustin USD Financing Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Authority and the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority or the Corporation.

The Tustin Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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

#### B. Basis of Presentation, Basis of Accounting

##### 1. Basis of Presentation

###### **Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

###### **Fund Financial Statements**

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category – *governmental* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

###### **Major Governmental Funds**

The District maintains the following major governmental funds:

**General Fund:** This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund and a Special Reserve Fund for Other Than Capital Outlay Projects. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Deferred Maintenance Fund does not currently meet the definition of special revenue funds as it is no longer primarily composed of restricted or committed revenue sources. In addition, the Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

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

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

**Capital Projects Funds for Blended Component Units:** This fund is used to account for the activity of the certificates of participation and of the Community Facilities Districts.



# TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

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

### B. Basis of Presentation, Basis of Accounting (continued)

#### 1. Basis of Presentation (continued)

##### Non-Major Governmental Funds

###### Special Revenue Funds:

**Adult Education Fund:** This fund is used to account for resources committed to adult education programs maintained by the District.

**Child Development Fund:** This fund is used to account for resources committed to child development programs maintained by the District.

**Cafeteria Fund:** This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

**Special Reserve Fund (Insurance Fund):** This fund is used to account for funds set aside for the District's workers' compensation, medical and dental insurance programs. This fund is reported as an internal service fund on the District's Annual Financial and Budget report.

###### Capital Projects Funds:

**Capital Facilities Fund:** This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

**Special Reserve Fund for Capital Outlay Projects:** This fund is used to account for funds set aside for Board designated construction projects.

###### Debt Service Fund:

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

###### Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

**ASB Funds:** The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

**IRC Section 125:** The District also maintains a Section 125 Employee Benefit Plan to hold funds that are collected on behalf of employees for benefits.

**Debt Service Fund for Special Tax Bonds:** This fund is used to account for the accumulation of resources for, and the repayment of, Community Facility District bonds, interest and related costs.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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

#### B. Basis of Presentation, Basis of Accounting (continued)

##### 2. Measurement Focus, Basis of Accounting

###### **Government-Wide and Fiduciary Fund Financial Statements**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

###### **Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

##### 3. 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. Generally, available is defined as collectible within 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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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

#### C. Budgetary Data

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

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

#### D. Encumbrances

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

#### E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

##### 1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

##### 2. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

##### 3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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

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

##### 4. 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 combined balance sheet and revenue is recognized.

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

##### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is to recognize the District's proportionate share of the deferred outflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that is reported as deferred inflows of resources. This item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

##### 6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

##### 7. 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 District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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

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

##### 8. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**Committed:** The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

**Assigned:** Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

##### 9. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

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

##### E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

###### 9. Net Position (continued)

- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

##### F. Minimum Fund Balance Policy

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The District's minimum reserve standard is 3% as per the recommended level for districts with less than 30,000 ADA (California Department of Education) or not less than two months of General Fund operating expenditures, or up to 17% of General Fund expenditures and other financing uses.

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.

##### G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

##### H. Use of Estimates

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

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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

#### I. New GASB Pronouncements

During the 2015-16 fiscal year, the following GASB Pronouncements became effective:

**1. Statement No. 72, *Fair Value Measurement and Application (Issued 02/15)***

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.

**2. Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15)***

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.

**3. Statement No. 79, *Certain External Investment Pools and Pool Participants (Issued 12/15)***

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.

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.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2016*

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**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2016, are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in county treasury	\$ 223,185,726	\$ 13,936,648
Total Pooled Funds	<u>223,185,726</u>	<u>13,936,648</u>
Deposits:		
Cash on hand and in banks	165,000	693,141
Cash in revolving fund	<u>150,000</u>	<u>65,000</u>
Total Deposits	<u>315,000</u>	<u>758,141</u>
Total Cash	<u>\$ 223,500,726</u>	<u>\$ 14,694,789</u>
Investments:		
U.S. Bank- Treasury Money Market Funds	<u>\$ 2,941,268</u>	<u>\$ 29,565,603</u>
Total Investments	<u>\$ 2,941,268</u>	<u>\$ 29,565,603</u>

**Pooled Funds**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2016, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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).



**TUSTIN UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2016*

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

**Custodial Credit Risk - Deposits (continued)**

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2016, \$1,061,770 of the District’s bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agency, but not in the name of the District.

**Investments - Interest Rate Risk**

The District’s investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District’s investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2016, consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank:			
U.S. Treasury Money Market Funds	\$ 32,506,871	\$ 32,506,871	\$ -
Total Investments	<u>\$ 32,506,871</u>	<u>\$ 32,506,871</u>	<u>\$ -</u>

**Investments - Credit Risk**

The District’s investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2016, all investments represented governmental securities which were issued, registered and held by the District’s agent in the District’s name.

**Investments - Concentration of Credit Risk**

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the District had the following investments that represents more than five percent of the District’s net investments.

U.S. Bank- Treasury Money Market Funds	100.0%
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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2016*

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**NOTE 3 – ACCOUNTS RECEIVABLE**

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

	General Fund	Building Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Totals
Federal Government:						
Categorical aid programs	\$ 4,997,134	\$ -	\$ -	\$ -	\$ -	\$ 4,997,134
Food service	-	-	-	-	978,744	978,744
State Government:						
Lottery	2,660,509	-	-	-	-	2,660,509
Categorical aid programs	743,630	-	-	-	285,547	1,029,177
Local:						
Interest	65,391	11,786	33,221	6,069	21,204	137,671
Other local	383,241	-	-	1,658,277	34,870	2,076,388
Miscellaneous	1,782,292	-	-	-	101,207	1,883,499
Total	<u>\$ 10,632,197</u>	<u>\$ 11,786</u>	<u>\$ 33,221</u>	<u>\$ 1,664,346</u>	<u>\$ 1,421,572</u>	<u>\$ 13,763,122</u>

**NOTE 4 – INTERFUND TRANSACTIONS**

**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2016, consisted of the following:

General Fund due to Adult Education Fund for expenditure transfer	\$ 4,197
General Fund due to Child Development Fund for cost correction	710
General Fund due to Cafeteria Fund for cost transfers	14,501
General Fund due to Special Reserve Fund for Capital Outlay Projects for RDA and special reserve transfer	6,250,831
Adult Education Fund due to General Fund for health and welfare	29,963
Child Development Fund due to General Fund for health and welfare	65,305
Child Development Fund due to Cafeteria Fund for expenditure transfer	235
Cafeteria Fund due to General Fund for health and welfare, and indirect costs	446,087
Building Fund to General Fund for health and welfare	5,765
Total	<u>\$ 6,817,594</u>

**B. Transfers To/From Other Funds**

Transfers to/from other funds during the year ended June 30, 2016, consisted of the following:

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for RDA and special reserve transfer	<u>\$ 6,250,831</u>
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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2016*

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**NOTE 5 – FUND BALANCES**

At June 30, 2016, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Component Units	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>						
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	381,367	-	-	-	54,664	436,031
Total Nonspendable	531,367	-	-	-	54,664	586,031
<b>Restricted:</b>						
Categorical programs	14,393,766	-	-	-	-	14,393,766
Adult Education program	-	-	-	-	394,274	394,274
Food Service program	-	-	-	-	2,616,400	2,616,400
Capital projects	-	13,964,468	49,546,159	6,693,278	35,543,435	105,747,340
Debt service	-	-	-	-	9,264,309	9,264,309
Total Restricted	14,393,766	13,964,468	49,546,159	6,693,278	47,818,418	132,416,089
<b>Committed:</b>						
Adult education program	-	-	-	-	218,633	218,633
Benefit accounts	140,000	-	-	-	-	140,000
Accrued vacation liability	1,472,759	-	-	-	-	1,472,759
Local protection	16,102,222	-	-	-	-	16,102,222
Facilities maintenance	4,400,262	-	-	-	-	4,400,262
Technology	4,221,468	-	-	-	-	4,221,468
Classroom furniture	9,846,272	-	-	-	-	9,846,272
Future school opening	500,000	-	-	-	-	500,000
One-time discretionary	12,261,808	-	-	-	-	12,261,808
LCAP & District priorities	6,936,775	-	-	-	-	6,936,775
School local programs	1,258,934	-	-	-	-	1,258,934
Textbook adoption	1,300,000	-	-	-	-	1,300,000
Total Committed	58,440,500	-	-	-	218,633	58,659,133
<b>Assigned:</b>						
Child development operations	-	-	-	-	576,859	576,859
Deferred maintenance program	5,167,096	-	-	-	-	5,167,096
Other assignments	5,020,944	-	-	-	-	5,020,944
Total Assigned	10,188,040	-	-	-	576,859	10,764,899
<b>Unassigned:</b>						
Reserve for economic uncertainties	6,655,022	-	-	-	7,196,386	13,851,408
Total Unassigned	6,655,022	-	-	-	7,196,386	13,851,408
<b>Total</b>	<b>\$ 90,208,695</b>	<b>\$ 13,964,468</b>	<b>\$ 49,546,159</b>	<b>\$ 6,693,278</b>	<b>\$ 55,864,960</b>	<b>\$ 216,277,560</b>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2016*

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

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

	Balance, July 1, 2015	Additions	Retirements	Balance, June 30, 2016
Capital assets not being depreciated:				
Land	\$ 176,147,527	\$ -	\$ -	\$ 176,147,527
Construction in progress	23,014,513	21,029,977	6,381,964	37,662,526
Total capital assets not being depreciated	<u>199,162,040</u>	<u>21,029,977</u>	<u>6,381,964</u>	<u>213,810,053</u>
Capital assets being depreciated:				
Improvement of sites	44,513,102	1,534,215	-	46,047,317
Buildings	423,672,564	9,906,982	37,347	433,542,199
Equipment	18,775,598	1,370,836	207,106	19,939,328
Total capital assets being depreciated	<u>486,961,264</u>	<u>12,812,033</u>	<u>244,453</u>	<u>499,528,844</u>
Accumulated depreciation for:				
Improvement of sites	(11,436,288)	(1,990,013)	-	(13,426,301)
Buildings	(96,421,299)	(9,912,886)	(3,735)	(106,330,450)
Equipment	(12,311,724)	(1,258,673)	(207,106)	(13,363,291)
Total accumulated depreciation	<u>(120,169,311)</u>	<u>(13,161,572)</u>	<u>(210,841)</u>	<u>(133,120,042)</u>
Total capital assets being depreciated, net	<u>366,791,953</u>	<u>(349,539)</u>	<u>33,612</u>	<u>366,408,802</u>
Governmental activity capital assets, net	<u>\$ 565,953,993</u>	<u>\$ 20,680,438</u>	<u>\$ 6,415,576</u>	<u>\$ 580,218,855</u>

**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the fiscal year ended June 30, 2016, were as follows:

	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	\$ 172,828,788	\$ 41,740,000	\$ 40,728,662	\$ 173,840,126	\$ 5,373,038
Accreted Interest	5,916,118	1,354,623	4,994,021	2,276,720	826,962
Unamortized Issuance Premium	12,211,626	8,704,026	2,501,115	18,414,537	1,160,739
Total - GO Bonds	<u>190,956,532</u>	<u>51,798,649</u>	<u>48,223,798</u>	<u>194,531,383</u>	<u>7,360,739</u>
Workers' Compensation Claims	4,085,152	-	-	4,085,152	-
Compensated Absences	1,266,931	205,828	-	1,472,759	-
Other Postemployment Benefits	7,952,105	1,322,405	-	9,274,510	-
Net Pension Liability	143,694,969	34,265,225	-	177,960,194	-
Totals	<u>\$ 347,955,689</u>	<u>\$ 87,592,107</u>	<u>\$ 48,223,798</u>	<u>\$ 387,323,998</u>	<u>\$ 7,360,739</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Accumulated vacation will be paid for by the fund for which the employee worked.

**A. General Obligation Bonds  
Measure G**

The District authorized bonds at a regularly scheduled election of the registered voters of the District held on November 5, 2002, at which more than 55% of the voters authorized the issuance and sale of \$80 million of general obligation bonds to finance the construction of new facilities, such as multipurpose rooms, renovation and improvements of existing schools and to fund a portion of the cost of the construction of a new elementary school. As of March 31, 2013, all bond proceeds had been spent for Measure G.

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

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#### NOTE 7 – GENERAL LONG-TERM DEBT (continued)

##### A. General Obligation Bonds (continued)

###### Measure L

On November 4, 2008, an election was held in the District, whereby the voters approved by a 58.5% of the vote Measure “L”, which authorizes the District to issue up to \$95 million of general obligation bonds. The bonds will be used to acquire, construct, renovate, upgrade and provide repair of existing school facilities.

###### Build America Bonds

A portion of the Measure G and Measure L bonds is designated “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”). Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. The District is obligated to deposit any cash subsidy payments it receives into the debt service fund for the Bonds.

###### Measure S

On November 6, 2012, a special election of the registered voters was held in School Facilities Improvement District No. 2012-1, at which more than the required 55 percent of voters authorized the issuance and sale of not to exceed \$135 million principal amount of general obligation bonds of the District to upgrade classrooms, science labs, equipment, instructional technology, and infrastructure.

###### 2006 Refunding

The District issued \$8,604,947 of Refunding Bonds on June 15, 2006. Of the net proceeds, \$8.6 million was placed into an escrow fund for the purpose of paying off a portion of the District’s outstanding Series A bonds in the amount of \$8,160,000. The remaining outstanding Series A bonds are not callable, and will remain outstanding until their scheduled maturity. As a result of the refunding, the District expects to realize over \$900,000 in net savings over the life of the bonds. At June 30, 2016, there was no principal balance outstanding on the defeased debt.

###### 2015 Refunding General Obligation Bonds

On January 28, 2015, the District issued \$23,795,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from June 1, 2015 through June 1, 2032. The net proceeds of \$28,645,416 (after premiums of \$5,072,147 and issuance costs of \$221,731) were used to prepay a portion of the District’s outstanding Election of 2002 General Obligation Bonds, Series 2002 B and C.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2016 of \$1,548,022 remain to be amortized for this refunding. As of June 30, 2016, the principal balance outstanding on the defeased debt amounted to \$17,125,000.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2016

**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**A. General Obligation Bonds (continued)**

**2016 Refunding General Obligation Bonds**

On April 6, 2016, the District issued \$41,740,000 of General Obligation Refunding Bonds. The refunding bonds were issued as \$15,195,000 Serial Bonds, with fixed interest rates of 5.0%, maturing between August 1, 2022 and \$26,545,000 Serial Bonds, with interest rates ranging between 2.0% and 5.0% with annual maturities from August 1, 2016 through August 1, 2036. The net proceeds of \$50,037,606 (after premiums of \$8,704,026 and issuance costs of \$406,420) were used to prepay the District's outstanding Election of 2002 Series D Convertible Capital Appreciation Bonds, as well as a portion of the District's outstanding Election of 2008 Series and Series B bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2016 of \$8,611,772 remain to be amortized for this refunding. As of June 30, 2016, the principal balance outstanding on the defeased debt amounted to \$35,233,166.

The refunding decreased the District's total debt service payments by \$5,284,435. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$4,239,409.

Below is a schedule of bonds issued and outstanding as of June 30, 2016.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2015	Issued	Redeemed	Refunded	Balance, June 30, 2016
<b>Measure G:</b>									
2002B	6/15/2006	2015	4.25% - 5.12%	\$ 17,350,000	\$ 400,000	\$ -	\$ 400,000	\$ -	\$ -
2002C	5/1/2008	2032	4.00% - 5.00%	22,649,972	1,230,550	-	445,730	-	784,820
2002D	3/10/2010	2034	6.00% - 6.90%	24,998,556	24,593,238	-	799,766	9,338,166	14,455,306
<b>Measure L:</b>									
2008A	3/30/2010	2034	3.00% - 6.589%	25,000,000	21,530,000	-	625,000	4,410,000	16,495,000
2008B	6/9/2011	2037	2.00% - 5.00%	25,000,000	24,965,000	-	120,000	21,485,000	3,360,000
2008C	5/8/2014	2042	2.00% - 4.00%	25,000,000	24,000,000	-	315,000	-	23,685,000
2008D	2/18/2015	2035	3.0% - 3.375%	20,000,000	20,000,000	-	-	-	20,000,000
<b>Measure S:</b>									
2012A	3/14/2014	2037	2.0% - 5.0%	35,000,000	32,535,000	-	2,705,000	-	29,830,000
<b>Refunding Bonds:</b>									
Refunding	1/28/2015	2032	2.0% - 5.0%	23,795,000	23,575,000	-	85,000	-	23,490,000
Refunding	4/6/2016	2029	5.00%	15,195,000	-	15,195,000	-	-	15,195,000
Refunding	4/6/2016	2037	2.0% - 5.0%	26,545,000	-	26,545,000	-	-	26,545,000
					<b>\$ 172,828,788</b>	<b>\$ 41,740,000</b>	<b>\$ 5,495,496</b>	<b>\$ 35,233,166</b>	<b>\$ 173,840,126</b>
<b>Accreted Interest:</b>									
				Series					
				2002C	\$ 1,025,064	\$ 201,455	\$ 444,270	\$ -	\$ 782,249
				2002D	4,891,054	1,153,168	300,234	4,249,517	1,494,471
					<b>\$ 5,916,118</b>	<b>\$ 1,354,623</b>	<b>\$ 744,504</b>	<b>\$ 4,249,517</b>	<b>\$ 2,276,720</b>

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

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#### NOTE 7 – GENERAL LONG-TERM DEBT (continued)

##### A. General Obligation Bonds (continued)

The annual requirements to amortize general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2016-17	\$ 5,373,038	\$ 7,468,089	\$ 12,841,127
2017-18	5,246,212	7,743,715	12,989,926
2018-19	6,170,680	7,136,021	13,306,701
2019-20	4,461,135	7,068,816	11,529,951
2020-21	4,698,136	6,938,415	11,636,551
2021-26	34,810,925	28,029,356	62,840,281
2026-31	45,485,000	18,879,120	64,364,120
2031-36	42,810,000	9,637,641	52,447,641
2036-41	18,910,000	2,458,794	21,368,794
2041-43	5,875,000	218,700	6,093,700
	<u>\$ 173,840,126</u>	<u>\$ 95,578,667</u>	<u>\$ 269,418,793</u>

##### B. 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 \$242,867,500 as of June 30, 2016, does not represent debt of the District and, as such, does not appear in the financial statements.

#### NOTE 8 – JOINT VENTURES

The Tustin Unified School District participates in two joint powers agreement (JPA) entities, the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Coastline Regional Occupational Program (CROP). ASCIP provides property and liability insurance for its participating school districts. The Tustin Unified School District pays a premium commensurate with the level of coverage requested. CROP provides student occupational training for its member school districts on an average daily attendance (ADA) basis.

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

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

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#### NOTE 8 – JOINT VENTURES (continued)

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

The relationship between the Tustin Unified School District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes. Current financial information for CROP is directly available from the JPA. Condensed current financial information of the ASCIP JPA is shown below:

	ASCIP June 30, 2015 (Audited)
Total Assets	\$ 369,904,431
Deferred Outflows of Resources	354,308
Total Liabilities	212,247,664
Deferred Inflows of Resources	<u>443,374</u>
Net Position	<u>\$ 157,567,701</u>
Total Revenues	\$ 230,954,099
Total Expenditures	<u>218,451,597</u>
Change in Net Assets	<u>\$ 12,502,502</u>

#### NOTE 9 – COMMITMENTS AND CONTINGENCIES

##### A. State and Federal Allowances, Awards, and Grants

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

##### B. Construction Commitments

As of June 30, 2016, the District had commitments with respect to unfinished capital projects of approximately \$25.8 million.

##### C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2016.



# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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### NOTE 10 – RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District participated in the ASCIP public entity risk pool for property and liability insurance coverage. General and automobile liability coverage is \$5 million with no deductible and property coverage is replacement cost with a \$10,000 deductible. Excess coverage above these limits is provided by the Schools Excess Liability Fund (SELF) JPS. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2015-16, the District was self-funded for workers compensation for the first \$750,000 of each loss, with excess coverage provided through a commercial excess insurance policy up to a maximum limit of \$25 million.

#### Employee Medical Benefits

The District has contracted with Aetna to provide employee medical, dental and vision benefits.

#### Claims Liability

The District records an estimated liability for workers' compensation 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 District 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:

	Workers' Compensation
Liability Balance, July 1, 2014	\$ 5,447,901
Claims and changes in estimates	(1,357,546)
Claims payments	<u>(5,203)</u>
Liability Balance, June 30, 2015	4,085,152
Claims and changes in estimates	4,891
Claims payments	<u>(4,891)</u>
Liability Balance, June 30, 2016	<u>\$ 4,085,152</u>
Assets available to pay claims at June 30, 2016	<u>\$ 7,196,386</u>

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2016

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#### NOTE 11 – PENSION PLANS

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

##### A. General Information about the Pension Plans

###### Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

###### Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4 percent at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year. Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a \$6,163 lump-sum death payment. There is a 2 percent simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2 percent increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1 percent of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0 percent at age 52 for members under *2% at 62*, increasing to a maximum of 2.5 percent at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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### NOTE 11 – PENSION PLANS (continued)

#### A. General Information about the Pension Plans (continued)

##### Benefits Provided (continued)

Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

##### Contributions

Active CalSTRS plan members under 2% at 60 were required to contribute 9.2% and plan members under 2% at 62 were required to contribute 8.56% of their salary in 2015-16. The required employer contribution rate for fiscal year 2015-16 was 10.73% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. 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 required employer contribution for fiscal year 2015-16 was 11.847%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Employer contributions	\$ 10,991,785	\$ 3,744,160
Employee contributions paid by State	\$ 6,236,404	\$ -
Employee contributions paid by employer	\$ -	\$ -

#### B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
CalSTRS	\$ 140,033,920
CalPERS	\$ 37,926,274
Total Net Pension Liability	<u>\$ 177,960,194</u>

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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### NOTE 11 – PENSION PLANS (continued)

#### B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. 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 plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015, was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2014	0.1970%	0.2517%
Proportion - June 30, 2015	0.2080%	0.2573%
Change - Increase (Decrease)	0.0110%	0.0056%

For the year ended June 30, 2016, the District recognized pension expense of \$18,986,548. 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	\$ 14,735,944	\$ -
Differences between actual and expected experience	2,167,542	(2,340,000)
Changes in assumptions	-	(2,330,296)
Adjustment due to differences in proportions	9,105,156	-
Net differences between projected and actual earnings on plan investments	6,228,988	(18,942,655)
	<u>\$ 32,237,630</u>	<u>\$ (23,612,950)</u>

**TUSTIN UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2016*

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

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

The total amount of \$14,735,944 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2017	\$ (2,187,444)
2018	(2,475,337)
2019	281,496
2020	(334,286)
2021	(334,286)
Thereafter	-

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2014, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

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. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2014, valuation were based on the results of an April 2014, actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – for CalSTRS

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

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

### NOTE 11 – PENSION PLANS (continued)

#### B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

##### **Discount Rate** – for CalSTRS (continued)

Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

##### **Discount Rate** – for CalPERS

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	4.50%	5.71%
Global Debt Securities	N/A	19%	N/A	2.43%
Inflation Sensitive	5%	6%	3.20%	3.36%
Private Equity	12%	10%	6.20%	6.95%
Real Estate	15%	10%	4.35%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	20%	N/A	0.20%	N/A
Liquidity	1%	2%	0.00%	-1.05%
	<u>100%</u>	<u>100%</u>		

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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### NOTE 11 – PENSION PLANS (continued)

#### B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

##### *Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 211,440,320	\$ 61,728,169
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 140,033,920	\$ 37,926,274
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 80,689,440	\$ 18,133,405

##### *Pension Plan Fiduciary Net Position*

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

#### C. Payable to the Pension Plans

At June 30, 2016, the District reported a payable of \$1,078,412 and \$348,039 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2016.

### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Tustin Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical and dental insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

#### Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees receiving benefits*	72
Active plan members*	1,377
Total	<u>1,449</u>

\* As of March 1, 2015 actuarial valuation

**TUSTIN UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

June 30, 2016

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**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Plan Descriptions and Contribution Information (continued)**

The following is a description of the District’s current retiree benefit plan. A few current retirees receive benefits to age 70 under prior, grandfathered retiree benefit plans.

	<u>Certificated *</u>	<u>Classified *</u>
Benefit types provided	Medical and dental	Medical and dental
Duration of benefits	To age 65	To age 65
Required service	8 years	5 years
Minimum age	50	50
Dependent coverage	No	No
District contribution - CAP	Up to \$12,500	Up to \$12,500

\* Management retirees receive benefits based on the appropriate bargaining unit.

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2015-16, the District contributed \$982,595.

**Annual OPEB Cost and Net OPEB Obligation**

The District’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

Annual Required Contribution (ARC)	\$ 2,340,410
Interest on net OPEB obligation	357,845
Adjustment to ARC	<u>(393,255)</u>
Annual OPEB cost	2,305,000
Contributions made	<u>(982,595)</u>
Increase (decrease) in net OPEB obligation	1,322,405
Net OPEB obligation - July 1, 2015	<u>7,952,105</u>
Net OPEB obligation - June 30, 2016	<u><u>\$ 9,274,510</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015-16 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2014	\$ 2,816,811	34.5%	\$ 6,732,085
2015	\$ 2,310,432	47.2%	\$ 7,952,105
2016	\$ 2,305,000	42.6%	\$ 9,274,510



# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2016

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### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

#### Funded Status and Funding Progress – OPEB Plans

As of March 1, 2015, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$17 million and the unfunded actuarial accrued liability (UAAL) was \$17 million.

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, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are 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 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 designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	March 1, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	4.5%
Inflation	2.75%
Long-term healthcare cost trend rates	4%

### NOTE 13 – ADJUSTMENTS FOR RESTATEMENTS

The beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance has been restated by \$62,700 for the General Fund and Non-Major Governmental Funds due to GASB No. 54. The Adult Education Fund (formerly reported within the General Fund) now meets the definition of a special revenue fund because of the restrictive nature of the Adult Education Block Grant and so is now reported as a Non-Major Fund.

The beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance and the beginning net position on the Statement of Activities has been restated by \$894,372 to correct the beginning balances of certain debt service accounts that had been included in capital projects funds.

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***Required Supplementary Information***

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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	<b>Budgeted Amounts</b>		<b>Actual* (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
LCFF sources	\$ 174,335,641	\$ 179,782,040	\$ 179,782,040	\$ -
Federal sources	8,191,857	8,733,863	8,555,720	(178,143)
Other State sources	22,281,000	44,277,780	42,870,304	(1,407,476)
Other Local sources	7,314,604	10,662,995	10,599,333	(63,662)
<b>Total Revenues</b>	<b>212,123,102</b>	<b>243,456,678</b>	<b>241,807,397</b>	<b>(1,649,281)</b>
<b>Expenditures</b>				
Current:				
Certificated salaries	99,986,010	103,264,253	103,205,965	58,288
Classified salaries	33,168,941	34,057,096	34,016,952	40,144
Employee benefits	42,574,124	46,278,227	46,229,216	49,011
Books and supplies	14,422,134	8,964,131	7,674,299	1,289,832
Services and other operating expenditures	21,671,238	20,028,880	19,816,875	212,005
Transfers of indirect cost	(430,883)	(429,228)	(429,229)	1
Capital outlay	1,566,720	2,095,202	2,095,200	2
Intergovernmental transfers	3,335,762	2,973,940	2,973,939	1
<b>Total Expenditures</b>	<b>216,294,046</b>	<b>217,232,501</b>	<b>215,583,217</b>	<b>1,649,284</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,170,944)	26,224,177	26,224,180	3
<b>Other Financing Sources and Uses</b>				
Interfund transfers out	(3,112,971)	(6,250,831)	(6,250,831)	-
<b>Total Other Financing Sources and Uses</b>	<b>(3,112,971)</b>	<b>(6,250,831)</b>	<b>(6,250,831)</b>	<b>-</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(7,283,915)	19,973,346	19,973,349	3
Fund Balances, July 1, 2015	55,610,583	60,047,306	60,047,306	-
Fund Balances, June 30, 2016	\$ 48,326,668	\$ 80,020,652	\$ 80,020,655	\$ 3

\* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Funding Progress*  
*For the Fiscal Year Ended June 30, 2016*

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
April 14, 2011	\$ -	\$ 15,183,435	\$ 15,183,435	0.0%	\$ 103,182,636	15%
March 1, 2013	\$ -	\$ 15,294,022	\$ 15,294,022	0.0%	\$ 94,144,277	16%
March 1, 2015	\$ -	\$ 16,955,638	\$ 16,955,638	0.0%	\$ 111,932,501	15%

**TUSTIN UNIFIED SCHOOL DISTRICT***Schedule of Proportionate Share of the Net Pension Liability  
For the Fiscal Year Ended June 30, 2016*

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	Last Ten Fiscal Years*	
	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset):		
CalSTRS	0.2080%	0.1970%
CalPERS	0.2573%	0.2517%
District's proportionate share of the net pension liability (asset):		
CalSTRS	\$ 140,033,920	\$ 115,120,890
CalPERS	\$ 37,926,274	\$ 28,574,079
District's covered-employee payroll:		
CalSTRS	\$ 95,210,923	\$ 88,358,545
CalPERS	\$ 28,447,600	\$ 26,511,816
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll:		
CalSTRS	147.1%	130.3%
CalPERS	133.3%	107.8%
Plan fiduciary net position as a percentage of the total pension liability:		
CalSTRS	74.0%	76.5%
CalPERS	79.4%	83.4%

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Contributions*  
*For the Fiscal Year Ended June 30, 2016*

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Last Ten Fiscal Years\*

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution:		
CalSTRS	\$ 8,454,730	\$ 7,289,580
CalPERS	\$ 3,348,567	\$ 3,033,482
Contributions in relation to the actuarially determined contribution:		
CalSTRS	\$ 8,454,730	\$ 7,289,580
CalPERS	<u>\$ 3,348,567</u>	<u>\$ 3,033,482</u>
Contribution deficiency (excess):		
CalSTRS	<u>\$ -</u>	<u>\$ -</u>
CalPERS	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll:		
CalSTRS	\$ 95,210,923	\$ 88,358,545
CalPERS	\$ 28,447,600	\$ 26,511,816
Contributions as a percentage of covered-employee payroll:		
CalSTRS	8.88%	8.25%
CalPERS	11.771%	11.442%

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

## TUSTIN UNIFIED SCHOOL DISTRICT

### *Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2016*

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#### **NOTE 1 – PURPOSE OF SCHEDULES**

##### **Budgetary Comparison Schedule**

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

##### **Schedule of Funding Progress**

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

##### **Schedule of Proportionate Share of the Net Pension Liability**

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

##### **Schedule of Contributions**

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

#### **NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS**

##### **Benefit Changes**

There were no changes to benefit terms that applied to all members of the Schools Pool.

##### **Changes of Assumptions**

The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2016, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

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***Supplementary Information***

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## TUSTIN UNIFIED SCHOOL DISTRICT

### *Local Educational Agency Organization Structure*

*June 30, 2016*

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The Tustin Unified School District was established July 1, 1972 upon unification of the Tustin Elementary and Union High School Districts. The District boundaries include the City of Tustin, portions of Santa Ana, the foothills portion of the unincorporated area of Orange County, and portions of the City of Irvine. There were no changes to the District's boundaries during the year. The District operates 18 elementary schools, one K-8 school, 5 middle schools, 3 comprehensive high schools, a continuation high school, and an alternative/adult education program.

<b>GOVERNING BOARD</b>		
<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Lynn Davis	President	November, 2018
Jonathan Ablove	Vice President	November, 2018
Tammie Bullard	Clerk	November, 2016
James Laird	Member	November, 2016
Francine Scinto	Member	November, 2016

#### **DISTRICT ADMINISTRATORS**

Gregory A. Franklin, Ed.D.,  
*Superintendent*

Charles Lewis, Ed.D.,  
*Chief Personnel Officer*

Kathie Nielsen,  
*Chief Academic Officer*

Anthony Soria,  
*Chief Financial Officer*

Lori Stillings, Ed.D.,  
*Assistant Superintendent, Special Education*

Crystal Turner, Ed.D.,  
*Assistant Superintendent, Administrative Services*

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2016*

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	<b>Second Period Report</b>	<b>Annual Report</b>
	Certificate No. (338B4F76)	Certificate No. (F29D6FC5)
<b>Regular ADA &amp; Extended Year:</b>		
Transitional Kindergarten through Third	6,444.78	6,454.65
Fourth through Sixth	5,517.92	5,524.88
Seventh through Eighth	3,724.69	3,721.79
Ninth through Twelfth	7,666.71	7,619.91
Total Regular ADA	<u>23,354.10</u>	<u>23,321.23</u>
<b>Special Education-Nonpublic, Nonsectarian Schools:</b>		
Transitional Kindergarten through Third	0.74	1.38
Fourth through Sixth	1.39	1.74
Seventh through Eighth	3.39	4.18
Ninth through Twelfth	7.11	8.73
Total Special Education-Nonpublic, Nonsectarian Schools	<u>12.63</u>	<u>16.03</u>
Total ADA	<u><u>23,366.73</u></u>	<u><u>23,337.26</u></u>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2016*

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Grade Level	Required	2015-16 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	36,348	180	Complied
Grade 1	50,400	50,748	180	Complied
Grade 2	50,400	50,748	180	Complied
Grade 3	50,400	50,748	180	Complied
Grade 4	54,000	54,348	180	Complied
Grade 5	54,000	54,348	180	Complied
Grade 6	54,000	59,251	180	Complied
Grade 7	54,000	59,251	180	Complied
Grade 8	54,000	59,251	180	Complied
Grade 9	64,800	71,509	180	Complied
Grade 10	64,800	71,509	180	Complied
Grade 11	64,800	71,509	180	Complied
Grade 12	64,800	71,509	180	Complied

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

General Fund	(Budget) 2017 <sup>2</sup>	2016 <sup>3</sup>	2015	2014
Revenues and other financing sources	\$ 243,485,583	\$ 241,807,397	\$ 203,689,072	\$ 178,987,600
Expenditures	242,096,617	215,583,217	194,835,991	175,309,782
Other uses and transfers out	3,100,000	6,250,831	5,795,021	2,701,596
Total outgo	245,196,617	221,834,048	200,631,012	178,011,378
Change in fund balance (deficit)	(1,711,034)	19,973,349	3,058,060	976,222
Ending fund balance	\$ 78,309,621	\$ 80,020,655	\$ 60,047,306	\$ 56,989,246
Available reserves <sup>1</sup>	\$ 7,355,899	\$ 6,655,022	\$ 25,529,699	\$ 21,595,214
Available reserves as a percentage of total outgo	3.0%	3.0%	12.7%	12.1%
Total long-term debt	\$ 380,379,572	\$ 387,323,998	\$ 347,955,689	\$ 366,060,525
Average daily attendance at P-2	23,354	23,367	23,279	23,259

The General Fund balance has increased by approximately \$23.0 million over the past two years. The fiscal year 2016-17 adopted budget projects a decrease of approximately \$1.7 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past three years, but anticipates incurring an operating deficit during the 2016-17 fiscal year. Long-term debt has increased by \$21.3 million over the past two years.

Average daily attendance has increased by 108 over the past two years. The District projects a decrease of 13 ADA in 2016-17.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the General Fund.

<sup>2</sup> Budget as of September 2016.

<sup>3</sup> The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**TUSTIN UNIFIED SCHOOL DISTRICT**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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*There were no differences between the Annual Financial and Budget Report and the  
Audited Financial Statements in any funds.*



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2016*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Basic	10.553	13525	\$ 33,710	
School Breakfast Program - Especially Needy	10.553	13526	1,284,122	
National School Lunch Program	10.555	13523	3,573,514	
Summer Food Service Program Operations	10.559	13004	22,274	
USDA Donated Foods	10.555	N/A	<u>464,745</u>	
Total Child Nutrition Cluster				\$ 5,378,365
Child Care Food Program Cluster:				
CCFP Claims Centers and Family Day Care Homes	10.558	13394	426,211	
CCFP Cash in Lieu of Commodities	10.558	13389	<u>32,973</u>	
Total Child Care Food Program Cluster				<u>459,184</u>
Total U.S. Department of Agriculture				<u>5,837,549</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,691,742
Title I, Part G, Advance Placement Testing	84.330B	14831		34,410
Title II, Part A, Teacher Quality Local	84.367	14341		399,576
Department of Rehabilitation, Workability II	84.126A	10006		90,000
Title III, English Language Acquisition Grants Cluster:				
Title III, Immigrant Education Program	84.365	15146	40,785	
Title III, Limited English Proficiency	84.365	14346	<u>523,089</u>	
Total English Language Grants Cluster				563,874
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster (IDEA):				
Local Assistance Entitlement	84.027	13379	3,248,524	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	69,474	
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,004	
Preschool Local Entitlement, Part B	84.027A	13682	316,186	
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	<u>268,732</u>	
Total Special Education (IDEA) Cluster				3,903,920
IDEA Early Intervention Grant, Part C	84.181	23761		61,210
Carl Perkins Act - Secondary	84.048	14894		<u>144,858</u>
Total U.S. Department of Education				<u>7,889,590</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Medi-Cal Administrative Activities (MAA)	93.778	10060		862,491
Child Development:				
CCDF Discretionary General Child Care FF	93.575	15136	149,729	
Child Care Mandatory and Matching funds - Child Care and Development Fund	93.596	13609	<u>272,149</u>	
Total Child Development				<u>421,878</u>
Total U.S. Department of Health & Human Services				<u>1,284,369</u>
Total Expenditures of Federal Awards				<u>\$ 15,011,508</u>

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

## **TUSTIN UNIFIED SCHOOL DISTRICT**

*Note to the Supplementary Information*

*June 30, 2016*

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### **NOTE 1 – PURPOSE OF SCHEDULES**

#### **Schedule of Average Daily Attendance (ADA)**

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

#### **Schedule of Instructional Time**

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met 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 the 1986-87 requirement, as required by Education Code Section 46201.

#### **Schedule of Financial Trends and Analysis**

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

#### **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 Expenditures of Federal Awards**

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

The District did not elect to use the ten percent de minimis indirect cost rate.

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***Other Independent Auditors' Reports***

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Tustin Unified School District  
Tustin, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Tustin Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2016.

**Internal Control Over Financial Reporting**

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

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**

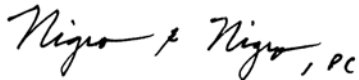
As part of obtaining reasonable assurance about whether Tustin Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001.

**Tustin Unified School District's Response to Finding**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Murrieta, California  
December 12, 2016



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education  
Tustin Unified School District  
Tustin, California

### **Report on State Compliance**

We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Tustin Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2016.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Tustin Unified School District's State programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Tustin 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 State program. However, our audit does not provide a legal determination of Tustin Unified School District's compliance.



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

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

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

***Unmodified Opinion on Compliance with State Programs***

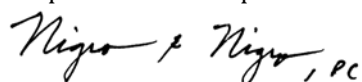
In our opinion, Tustin Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

***Other Matter***

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above, which is required to be reported in accordance with *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001.

***District's Response to Finding***

Tustin Unified School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Tustin Unified School District's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.



Murrieta, California  
December 12, 2016



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

Board of Education  
Tustin Unified School District  
Tustin, California

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

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

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Tustin 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 Tustin 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 Tustin Unified School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Tustin 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.

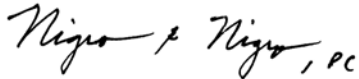
## **Report on Internal Control Over Compliance**

Management of Tustin 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 Tustin 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 the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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, as defined above. 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.



Murrieta, California  
December 12, 2016

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***Findings and Questioned Costs***

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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

***Federal Awards***

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>93.778</u> <u>Medical Assistance Program</u>	
<u>84.027, 84.173</u> <u>Special Education Cluster (IDEA)</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

***There were no financial statement findings in 2015-16.***

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2015-16.*



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2016*

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

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

**Finding 2016-001: Educator Effectiveness (40000)**

**Criteria:** The District is required to explain a delineated plan for how Educator Effectiveness funds will be spent in a public meeting before adoption in a subsequent public meeting.

**Condition:** The District presented a delineated plan for Educator Effectiveness funds and adopted the plan at the same meeting on December 4, 2015.

**Questioned Costs:** If the District does not adopt the plan as required at a subsequent meeting, the entire amount of the grant award must be returned. This amount is \$1,548,592.

**Cause:** The District failed to hold a subsequent meeting where the plan was adopted and instead presented and adopted the plan at the same meeting.

**Recommendation:** We recommend the District adopt the plan as soon as possible in a public meeting.

**Views of Responsible Officials:** The District will be taking the proposed expenditures to a subsequent board meeting on January 17, 2017 for adoption.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2016*

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2015-1: Cafeteria Fund Cash Reserves</i>	<p>The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b).</p> <p>At June 30, 2015, fund balance in the Cafeteria Fund was \$2,915,780, which exceeds the average of three months expenditures by \$967,600. This is an improvement of \$727,284 over the prior year finding.</p>	50000	We recommend the District submit a spending plan to the CDE and obtain approval in spending the excess of allowable funds.	Implemented.

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To the Board of Education  
Tustin Unified School District  
Tustin, California

In planning and performing our audit of the basic financial statements of Tustin Unified School District for the year ending 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 basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity 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 12, 2016 on the financial statements of Tustin Unified School District.

#### **DISTRICT OFFICE**

**Observation:** In our sample of cash disbursements, we noted 24 of 63 that had exceptions. Twenty-two disbursements had purchase order dates after the date of invoice, indicating a lack of preapproval of the purchase. Two disbursements did not have adequate supporting documentation.

**Recommendation:** We recommend the District obtain proper approval prior to incurring expenditures and that all documentation is retained in order to substantiate expenditures. This way, it can be determined if expenditures are appropriate and necessary for an educational purpose.

**Observation:** In our sample of cash receipts, one deposit for facility fees from SoCal Aquatics did not match the invoiced amount. The invoice was for \$3,745 but the deposited amount was \$3,240.

**Recommendation:** We recommend the District investigate and determine the reason for this apparent discrepancy.

**Observation:** During our internal control inquiry with Information Technology, we noted that there is no requirement for passwords to be changed.

**Recommendation:** We recommend passwords should be changed periodically and rigorously safeguarded to protect from unauthorized access to database and computer systems.

**Observation:** During inventory observation and recount, we noted items that a vendor donated to the District were not recorded in the inventory system. The items consisted of cleaning supplies that were stored in the District warehouse.

**Recommendation:** We recommend the District record donated inventory in the system so that these items can be monitored and valued as District property. This will allow the District to properly account for these items and mitigate loss.

## ASB MANAGEMENT COMMENTS

**Observation:** We found accounts at *Foothill High* that are called “Guidance” and “Appreciation”, which are discretionary accounts for the principal.

**Recommendation:** ASB accounts are not and should not be used as pass-through or clearing accounts for District funds. Accepting the District funds into the ASB account is also considered commingling of funds. We recommend that the sites forward all District funds to the District Office for receipt or open a separate clearing account for funds to be transferred to the District on a monthly basis.

**Observation:** At *Hewes Middle*, we noted that the ASB bookkeeper retired in December, with her husband taking over the accounting on a home computer. The QuickBooks file was not made available to the school upon her retirement.

**Recommendation:** We recommend the file be returned to the site, records should not be taken home as they are the property of the District.

**Observation:** During our testing, we identified that bank reconciliations were not always prepared timely. At *Currie Middle* the January and February bank statements had not been reconciled due to the bookkeeper being on a maternity leave. At *Pioneer Middle*, cash collected on February 2 was not deposited until February 25. Timely and accurate bank reconciliations and deposits are prudent and necessary to ensure that the accounting records match the amounts held on deposit.

**Recommendation:** We recommend the bookkeepers perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, the Principal or ASB Advisor should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the ASB Bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.

**Observation:** In our test of cash disbursements at *Foothill High*, *Pioneer Middle* and *Hewes Middle*, we noted that some of the disbursements sampled were approved by the District Representative, the ASB advisor, and/or the student representative, but not until *after the expenditure had already been incurred*.

**Recommendation:** Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

**Observation:** During our tests of cash disbursements at *Foothill High*, four expenses in our sample of 25 lacked any supporting documentation. At *Pioneer Middle*, three expenses out of five lacked adequate supporting documentation.

**Recommendation:** We advise the District to follow-up on the exceptions to ensure that the discrepancy or the expense was for a legitimate reason. In addition, we recommend that the sites require all approvals and appropriate supporting documentation to match prior to issuing disbursements to ensure that student funds are being properly spent.

## ASB MANAGEMENT COMMENTS (continued)

**Observation:** In our expenditure testing at *Hewes Middle*, we noted instances where purchased items for \$284.39 were shipped directly to the purchaser's home address, rather than to the school. At *Beckman High*, an order for paper of \$370 and an order from Vista Print of \$94 were shipped to a personal address, as well as a disbursement for \$419. At *Pioneer Middle*, an order in the amount of \$5,482.60 was shipped to a personal address instead of the school site. At *Foothill High*, a purchase of holiday cards for \$190.71 was also not shipped to the school.

**Recommendation:** Allowing items to be shipped directly to the purchaser allows the possibility for fraudulent transactions to occur and go undetected. All goods or services purchased with ASB funds should be received by an individual other than the original purchaser and signed off, as noted above.

**Observation:** During our testing of cash disbursements, our sample included some expenses that are unallowable or questionable.

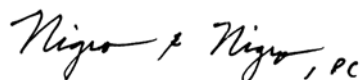
- At *Hewes Middle*, we noted expenses for an 8<sup>th</sup> grade class gift, toner for a copier, classroom supplies, and gift cards. Furthermore, one disbursement was to reimburse an employee \$281.73 for purchases that were commingled with personal expenses, and it was not clear which were proper ASB expenses and which were personal.
- At *Foothill High* money was spent on plaques for the counseling office, prize money for a dodgeball tournament, holiday cards for faculty, business cards for the athletic directors, hotel for a coaching convention, and polo shirts for coaches.
- At *Beckman High* ASB funds of \$6,250 were used to rent film equipment for a film class. This appears to be a use of ASB funds for District curriculum. Also, the ASB has signed a contract with the company to provide the equipment. It is best practice for any contracts to be signed in the District Business Office.

**Recommendation:** Such items are usually not allowable because they are either a gift of public funds, personal expenses of employees, or for use in the District curriculum. ASB funds are considered public funds because they are raised through the District's tax identification number and receive the benefit of nontaxable status. Anything that is purchased must be for goods and services that promote the students' general welfare, morale, and educational experiences. We recommend that the site discontinue issuing such payments from ASB funds and that the site be reminded of allowable and prohibited purchases with ASB funds.

**Observation:** In our testing of cash receipts, we found some deposits tested lacked sufficient supporting documentation. At *Tustin High*, we found that a tally sheet or receipts were lacking for two of the ten deposits that we sampled. At *Foothill High*, we found that no support was available for AVID road trip donations of nearly \$3,000. At *Beckman High*, pre-numbered receipts, tally sheets, or order forms were not kept for apparel sales for wrestling. At *Hewes Middle*, original source documentation was not available for eight of the ten deposits that we tested.

**Recommendation:** Without original supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. We recommend that before any events are held, control procedures, such as ticket logs, tally sheets, pre-numbered cash receipts, or cash register receipts, should be established that will allow for the reconciliation between money collected and event sales.

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



Murrieta, California  
December 12, 2016