TUSTIN UNIFIED
SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2018

TUSTIN UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2018
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NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

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, 2018, 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 *2017-18 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, 2018, 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.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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Emphasis of Matter
As discussed in Note 13 to the financial statements, the net position as of June 30, 2017 has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and the notes to the required supplementary information 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 60 to 63 and the schedule of expenditures of federal awards on page 64 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 59 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 14, 2018, 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.

Nigro + Nigro, PC.

Murrieta, California
December 14, 2018

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, 2018. 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 \$2.0 million or 0.5% over the course of the year.
- Overall government-wide revenues were \$296.6 million, and overall expenses were \$294.6 million.
- The total cost of basic programs was \$294.6 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 \$235.9 million.
- The District increased its outstanding long-term debt by \$16.7 million or 7.6%. This was primarily due to additions in other postemployment benefits (OPEB) and general obligation bonds.
- Average daily attendance (ADA) in grades K-12 decreased by 192, or 0.8%.

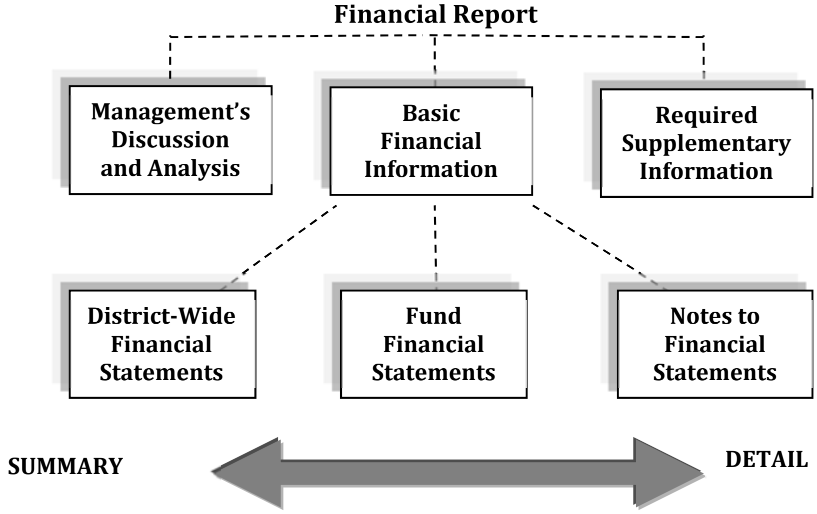
OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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

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



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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
Scope	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
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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
Type of inflow/outflow information	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.

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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2018, than it was the year before – increasing 0.5% to $433.8 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase
	2018	2017*	(Decrease)
Assets			
Current assets	$ 261,044,839	$ 238,721,739	$ 22,323,100
Capital assets	609,478,605	607,392,661	2,085,944
Total assets	870,523,444	846,114,400	24,409,044
Deferred outflows of resources	85,860,578	61,714,347	24,146,231
Liabilities			
Current liabilities	23,773,087	29,550,499	(5,777,412)
Long-term liabilities	236,287,983	219,580,219	16,707,764
Net pension liability	252,891,484	216,170,593	36,720,891
Total liabilities	512,952,554	465,301,311	47,651,243
Deferred inflows of resources	9,646,955	10,700,428	(1,053,473)
Net position			
Net investment in capital assets	453,748,875	446,018,767	7,730,108
Restricted	110,758,682	103,855,277	6,903,405
Unrestricted	(130,723,044)	(118,047,036)	(12,676,008)
Total net position	$ 433,784,513	$ 431,827,008	$ 1,957,505

*As restated

Changes in net position, governmental activities. The District's total revenues decreased 1.9% to $296.6 million (See Table A-2). The change is due primarily to decreases in operating grants and contributions.

The total cost of all programs and services increased 4.4% to $294.6 million. The District's expenses are predominantly related to educating and caring for students, 75.1%. The purely administrative activities of the District accounted for just 4.2% of total costs. A significant contributor to the increase in costs was increases in facility acquisitions.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities 2018	Governmental Activities 2017	Variance Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	$ 2,730,549	$ 2,203,956	$ 526,593
Operating grants and contributions	50,009,224	66,269,501	(16,260,277)
Capital grants and contributions	5,930,954	-	5,930,954
General Revenues:			
Property taxes	149,445,150	137,762,852	11,682,298
Federal and state aid not restricted	75,795,748	82,139,772	(6,344,024)
Other general revenues	12,652,399	13,888,981	(1,236,582)
Total Revenues	296,564,024	302,265,062	(5,701,038)
Expenses			
Instruction-related	192,265,214	188,784,961	3,480,253
Pupil services	28,939,374	27,884,490	1,054,884
Administration	12,420,691	13,021,569	(600,878)
Plant services	31,005,000	23,019,935	7,985,065
All other activities	29,976,240	29,560,139	416,101
Total Expenses	294,606,519	282,271,094	12,335,425
Increase (decrease) in net position	$ 1,957,505	$ 19,993,968	$ (18,036,463)
Total Net Position	$ 433,784,513	$ 431,827,008	

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 $240.5 million, which is above last year's ending fund balance of $211.5 million. The primary cause of the increased fund balance is the issuance of general obligation bonds.

Table A-3: The District's Fund Balances

	Fund Balances				
	July 1, 2017	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2018
Fund					
General Fund	$ 82,783,646	$ 256,914,325	$ 251,726,713	$ (5,365,339)	$ 82,605,919
Adult Education Fund	849,733	1,807,893	1,316,491	-	1,341,135
Child Development Fund	577,222	2,440,912	2,337,353	-	680,781
Cafeteria Fund	2,739,119	7,552,829	7,726,467	-	2,565,481
Deferred Maintenance Fund	7,744,796	4,095,714	2,315,520	-	9,524,990
Special Reserve Fund (Other Than Capital Outlay)	6,811,643	81,933	-	-	6,893,576
Building Fund	1,095,640	113,432	5,088,360	20,000,000	16,120,712
Capital Facilities Fund	17,923,285	936,887	1,261,382	-	17,598,790
County School Facilities Fund	34,533,001	6,412,553	1,351,065	-	39,594,489
Special Reserve Fund (Capital Outlay)	16,614,516	429,572	6,425,269	5,065,339	15,684,158
Capital Outlay Fund for Blended Component Units	23,251,352	8,905,365	2,945,935	-	29,210,782
Bond Interest and Redemption Fund	9,295,736	13,849,665	13,288,425	1,219,879	11,076,855
Self-Insurance Fund	7,254,719	94,343	4,514	300,000	7,644,548
	$ 211,474,408	$ 303,635,423	$ 295,787,494	$ 21,219,879	$ 240,542,216

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 $12.4 million primarily to reflect federal and state budget actions
- Expenses – increased about $1.2 million as a result of district wide budget actions.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about $5.2 million, the actual results for the year were consistent with this estimate. Actual revenues were approximately $1.6 million less than anticipated, and expenditures were $1.6 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets
By the end of 2017-18 the District had invested $18.4 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 $16.3 million.

Table A-4: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities		Variance Increase
	2018	2017	(Decrease)
Land	$ 176,147,527	$ 176,147,527	$ -
Improvement of sites	47,447,939	48,360,942	(913,003)
Buildings	361,781,935	364,006,721	(2,224,786)
Equipment	10,576,912	10,815,142	(238,230)
Construction in progress	13,524,292	8,062,329	5,461,963
Total	$ 609,478,605	$ 607,392,661	$ 2,085,944

Long-Term Debt
At year-end the District had $236.3 million in general obligation bonds, workers' compensation claims, compensated absences, and other postemployment benefits – an increase of 7.6% from last year – as shown in Table A-5. (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

	Governmental Activities		Variance Increase
	2018	2017*	(Decrease)
General obligation bonds	$ 202,322,631	$ 187,586,957	$ 14,735,674
Workers' compensation claims	5,325,973	5,325,973	-
Compensated absences	1,109,470	1,068,719	40,751
Other postemployment benefits	27,529,909	25,598,570	1,931,339
Total	$ 236,287,983	$ 219,580,219	$ 16,707,764

*As restated

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 $253 million *net pension liability* represents the District's 0.2037% share of the total CalSTRS liability and 0.2701% 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

The 2018-19 State Budget

Final Budget Package Includes $15.9 Billion in Total Reserves

The Legislature passed the final budget package on June 14, 2018. Total reserves in the final budget package are lower than the proposed level in the May Revision, but roughly the same as the level proposed by the Governor in January. The budget package also reflects various choices that shifted spending priorities compared to the Governor's proposal. In particular, the final budget package reduces payments for deferred maintenance by $700 million—relative to the Governor's proposal—freeing up a like amount of funding. Correspondingly, the final budget package reflects higher General Fund spending for homeless grants and the universities, among others. The Governor signed the *2018-19 Budget Act* and 26 other budget related bills on June 27 and June 28, 2018.

Overall Spending

The budget assumed total state spending of $197.2 billion (excluding federal and bond funds), an increase of 7% over revised totals for 2017-18. General Fund spending in the budget package is $138.7 billion—an increase of $11.6 billion, or 9%, over the revised 2017-18 level. Special fund spending increased $1.3 billion, or 2%, over the revised 2017-18 level.

Considerable New Spending on Education

The budget package contains significant increases for every education segment. For elementary and secondary schools, the state surpasses the Local Control Funding Formula target rates set in 2013-14. For early education, the budget contains higher spending for more slots, rate increases, staff training, and facilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Proposition 98 Establishes Minimum Spending Level
This minimum spending requirement is commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 student attendance. The state can spend at the minimum guarantee or any level above it. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue growth is weak relative to changes in per capita personal income. Maintenance factor is paid when General Fund revenue growth is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18
From the June 2017 budget plan to the June 2018 budget plan, spending increased $252 million in 2016-17 and $1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of $789 million (on top of a previous $536 million payment). After making the $1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

2018-19 Spending up Notably Over Revised 2017-18 Level
For 2018-19, total Proposition 98 spending across all segments is $78.4 billion, an increase of $2.8 billion (3.7%) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67% increase in per capita personal income. Though the administration projects a 0.29% decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19
The enacted 2018-19 level is $2.4 billion (3.6%) more than the revised 2017-18 level and $3.2 billion (4.9%) more than the *2017-18 Budget Act* level. The budget increases spending per student by $579 (5.2%) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to $11,645.

Package Includes Mix of Ongoing and One-Time Spending
The budget includes $5.7 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the $5.7 billion, $4 billion (70%) is ongoing and $1.7 billion (30%) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes $594 million in Proposition 51 bond authority for school facility projects and $100 million in non-Proposition 98 funding for kindergarten school facilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The 2018-19 State Budget (continued)

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates
In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71% cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7% COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is $3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to $61.1 billion, a 6.4% increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants
The largest one-time spending initiative for K-12 education is $1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated $183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total $145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, it is estimated that only $202 million of the funding provided will count toward the K-12 mandates backlog. It is estimated that the total remaining mandate backlog at the end of 2018-19 will be $668 million.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2018-19 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, 2018

	Total Governmental Activities
ASSETS	
Cash	$ 241,728,291
Investments	1,295
Accounts receivable	18,952,188
Inventories	354,411
Prepaid expenses	8,654
Capital assets:	
Non-depreciable assets	189,671,819
Depreciable assets	584,902,641
Less accumulated depreciation	(165,095,855)
Total assets	870,523,444
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	9,312,775
Deferred outflows from pensions	76,547,803
Total deferred outflows of resources	85,860,578
LIABILITIES	
Accounts payable	23,041,030
Unearned revenue	732,057
Long-term liabilities:	
Portion due or payable within one year	7,901,792
Portion due or payable after one year	228,386,191
Net pension liability	252,891,484
Total liabilities	512,952,554
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	9,063,098
Deferred inflows from OPEB	583,857
Total deferred inflows of resources	9,646,955
NET POSITION	
Net investment in capital assets	453,748,875
Restricted for:	
Capital projects	72,877,437
Debt service	11,076,855
Categorical programs	21,478,417
Workers' compensation claims	5,325,973
Unrestricted	(130,723,044)
Total net position	$ 433,784,513

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:					
Instructional services:					
Instruction	$ 164,298,309	$ 5,852	$ 20,589,289	$ 5,930,954	$ (137,772,214)
Instruction-related services:					
Supervision of instruction	10,479,550	1,486	2,646,253	-	(7,831,811)
Instructional library, media and technology	1,501,454	-	-	-	(1,501,454)
School site administration	15,985,901	1,745	849,862	-	(15,134,294)
Pupil support services:					
Home-to-school transportation	4,978,428	-	-	-	(4,978,428)
Food services	7,744,695	2,084,219	6,308,977	-	648,501
All other pupil services	16,216,251	2,475	3,718,578	-	(12,495,198)
General administration services:					
Data processing services	2,778,388	-	-	-	(2,778,388)
Other general administration	9,642,303	75,161	1,418,093	-	(8,149,049)
Plant services	31,005,000	484,770	5,536,702	-	(24,983,528)
Ancillary services	1,117,896	-	1,432,201	-	314,305
Community services	1,396,587	-	856,076	-	(540,511)
Interest on long-term debt	7,568,697	74,841	-	-	(7,493,856)
Other outgo	3,559,015	-	6,653,193	-	3,094,178
Depreciation (unallocated)	16,334,045	-	-	-	(16,334,045)
Total Governmental Activities	$ 294,606,519	$ 2,730,549	$ 50,009,224	$ 5,930,954	(235,935,792)

General Revenues:	
Property taxes	149,445,150
Federal and state aid not restricted to specific purpose	75,795,748
Interest and investment earnings	1,795,469
Interagency revenues	457,250
Miscellaneous	10,399,680
Total general revenues	237,893,297
Change in net position	1,957,505
Net position - July 1, 2017, as originally stated	433,344,557
Adjustment for restatement (Note 13)	(1,517,549)
Net position - July 1, 2017, as restated	431,827,008
Net position - June 30, 2018	$ 433,784,513

TUSTIN UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2018

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$ 109,801,015	$ 39,575,423	$ 27,161,671	$ 65,190,182	$ 241,728,291
Investments	-	-	-	1,295	1,295
Accounts receivable	7,638,652	53,723	9,219,326	1,802,421	18,714,122
Due from other funds	611,799	-	-	7,864,721	8,476,520
Inventories	264,999	-	-	89,412	354,411
Prepaid expenditures	8,654	-	-	-	8,654
Total Assets	$ 118,325,119	$ 39,629,146	$ 36,380,997	$ 74,948,031	$ 269,283,293
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 10,703,856	$ 34,657	$ 7,170,215	$ 1,623,772	$ 19,532,500
Due to other funds	7,864,721	-	-	611,799	8,476,520
Unearned revenue	732,057	-	-	-	732,057
Total Liabilities	19,300,634	34,657	$ 7,170,215	2,235,571	28,741,077
Fund Balances					
Nonspendable	423,653	-	-	89,412	513,065
Restricted	18,411,323	39,594,489	29,210,782	63,458,197	150,674,791
Committed	62,921,757	-	-	839,522	63,761,279
Assigned	9,524,990	-	-	680,781	10,205,771
Unassigned	7,742,762	-	-	7,644,548	15,387,310
Total Fund Balances	99,024,485	39,594,489	29,210,782	72,712,460	240,542,216
Total Liabilities and Fund Balances	$ 118,325,119	$ 39,629,146	$ 36,380,997	$ 74,948,031	$ 269,283,293

TUSTIN UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total fund balances - governmental funds		$ 240,542,216
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost:	774,574,460	
Accumulated depreciation:	(165,095,855)	
Net:		609,478,605
Deferred amounts on 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:		9,312,775
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:		(3,508,530)
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.		238,066
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 government-wide statements, consist of:		
General obligation bonds payable	202,322,631	
Workers' compensation claims	5,325,973	
Compensated absences	1,109,470	
Other postemployment benefits	27,529,909	
Total		(236,287,983)
The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.		(252,891,484)
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources relating to pensions	76,547,803	
Deferred inflows of resources relating to pensions	(9,063,098)	
Net:		67,484,705
In governmental funds, deferred outflows and deferred inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows/(inflows) of resources relating to OPEB are reported. Deferred outflows/(inflows) relating to OPEB for the period were:		(583,857)
Total net position - governmental activities		$ 433,784,513

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	$ 200,729,020	$ -	$ -	930,000	$ 201,659,020
Federal sources	9,106,331	-	-	6,336,982	15,443,313
Other state sources	37,479,825	5,930,954	-	2,561,235	45,972,014
Other local sources	13,776,796	481,599	8,905,365	17,397,316	40,561,076
Total Revenues	261,091,972	6,412,553	8,905,365	27,225,533	303,635,423
EXPENDITURES					
Current:					
Instruction	161,389,130	-	-	1,747,627	163,136,757
Instruction-related services:					
Supervision of instruction	10,319,893	-	-	14,323	10,334,216
Instructional library, media and technology	1,247,819	-	-	-	1,247,819
School site administration	14,812,421	-	-	571,396	15,383,817
Pupil support services:					
Home-to-school transportation	5,069,926	-	-	-	5,069,926
Food services	12,828	-	-	7,401,925	7,414,753
All other pupil services	15,323,266	-	-	150,236	15,473,502
Ancillary services	1,117,642	-	-	-	1,117,642
Community services	404,720	-	-	983,002	1,387,722
Enterprise activities	-	-	-	4,514	4,514
General administration services:					
Data processing services	2,779,895	-	-	-	2,779,895
Other general administration	9,025,221	-	-	-	9,025,221
Plant services	23,281,210	-	-	11,698	23,292,908
Transfers of indirect costs	(426,394)	-	-	426,394	-
Capital Outlay	6,699,747	1,351,065	2,945,935	12,680,721	23,677,468
Intergovernmental transfers	2,984,909	-	-	-	2,984,909
Debt Service:					
Principal	-	-	-	5,246,212	5,246,212
Interest	-	-	-	7,671,261	7,671,261
Issuance costs	-	-	-	538,952	538,952
Total Expenditures	254,042,233	1,351,065	2,945,935	37,448,261	295,787,494
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,049,739	5,061,488	5,959,430	(10,222,728)	7,847,929
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	5,365,339	5,365,339
Interfund transfers out	(5,365,339)	-	-	-	(5,365,339)
Issuance of debt - general obligation bonds	-	-	-	20,000,000	20,000,000
Issuance of debt - refunding bonds	-	-	-	21,215,000	21,215,000
Premiums on issuances of debt	-	-	-	4,263,714	4,263,714
Transfers to escrow agent for defeased debt	-	-	-	(24,258,835)	(24,258,835)
Total Other Financing Sources and Uses	(5,365,339)	-	-	26,585,218	21,219,879
Net Change in Fund Balances	1,684,400	5,061,488	5,959,430	16,362,490	29,067,808
Fund Balances, July 1, 2017	97,340,085	34,533,001	23,251,352	56,349,970	211,474,408
Fund Balances, June 30, 2018	$ 99,024,485	$ 39,594,489	$ 29,210,782	$ 72,712,460	$ 240,542,216

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, 2018

Total net change in fund balances - governmental funds			$ 29,067,808
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	18,429,908	
	Depreciation expense	(16,334,045)	
	Net:		2,095,863
In governmental funds, repayments of long-term debt and refundings are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment and refundings of the principal portion of long-term debt were:			28,246,212
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:			(45,478,714)
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:			1,892,164
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:			(980,658)
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:			604,664
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. The difference between interest received and earned during the year was:			13,362
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:			(9,919)
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:			(1,931,339)
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:			(722,066)
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:			(10,799,121)
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*).			(40,751)
Change in net position of governmental activities			$ 1,957,505

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2018

	Agency Funds			
	Student Body Funds	IRC Section 125 Fund	Debt Service Fund for Special Tax Bonds	Totals
Assets				
Cash	$ 703,197	$ 60,000	$ 7,782,657	$ 8,545,854
Investments	-	-	28,747,903	28,747,903
Other assets	-	-	7,169,075	7,169,075
Total Assets	$ 703,197	$ 60,000	$ 43,699,635	$ 44,462,832
Liabilities				
Due to student groups	$ 692,015	$ -	$ -	$ 692,015
Accounts payable	11,182	-	4,592,870	4,604,052
Due to employees	-	60,000	-	60,000
Due to bondholders	-	-	39,106,765	39,106,765
Total Liabilities	$ 703,197	$ 60,000	$ 43,699,635	$ 44,462,832

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. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, 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 Board of Trustees of the component units is essentially the same as the Board of Trustees 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, but not for 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.

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. The Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects are 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.

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.

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:

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.

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.

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 (continued)

Fiduciary Funds (continued)

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.

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.

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 and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. 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

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.

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.

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. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Tustin Unified School District Retiree Benefits Plan (“the Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. 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.

9. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. 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.

- **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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

I. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

   - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
   - Reporting amounts previously reported as goodwill and "negative" goodwill
   - Classifying real estate held by insurance entities
   - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
   - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
   - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
   - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
   - Classifying employer-paid member contributions for OPEB
   - Simplifying certain aspects of the alternative measurement method for OPEB
   - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

4. In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, are reported at fair value and consisted of the following:

	Rating	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:			
Cash in county treasury		$ 241,308,291	$ 7,782,657
Total Pooled Funds		241,308,291	7,782,657
Deposits:			
Cash on hand and in banks		270,000	703,197
Cash in revolving fund		150,000	60,000
Total Deposits		420,000	763,197
Total Cash		$ 241,728,291	$ 8,545,854
Investments:			
U.S. Bank- Treasury Money Market Funds	AAAm	$ 1,295	$ 28,747,903
Total Investments		$ 1,295	$ 28,747,903

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, 2018, 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).

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, 2018, $944,691 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, 2018, consist of the following:

		Maturity		
	Fair Value	Less Than One Year	One Year Through Five Years	Fair Value Measurement
Investment maturities:				
U.S. Bank:				
U.S. Treasury Money Market Funds	$ 28,749,198	$ 28,749,198	$ -	Level 2
Total Investments	$ 28,749,198	$ 28,749,198	$ -	

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, 2018, 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, 2018, 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%

NOTE 2 – CASH AND INVESTMENTS (continued)

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

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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

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

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consisted of the following:

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	$ 4,197,693	$ -	$ -	$ 35,235	$ 4,232,928
Food service	-	-	-	752,766	752,766
State Government:					
Lottery	1,020,440	-	-	-	1,020,440
Categorical aid programs	601,083	-	-	398,036	999,119
Food service	-	-	-	59,064	59,064
Local:					
Interest	151,825	53,723	-	61,738	267,286
Other local	1,667,611	-	-	495,582	2,163,193
Due from city government	-	-	4,626,456	-	4,626,456
Due from agency fund	-	-	4,592,870	-	4,592,870
Total	$ 7,638,652	$ 53,723	$ 9,219,326	$ 1,802,421	$ 18,714,122

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2018, consisted of the following:

	Due From Other Funds		
	General Fund	Non-Major Governmental Funds	Total Governmental Funds
General Fund	$ -	$ 7,864,721	$ 7,864,721
Non-Major Governmental Funds	611,799	-	611,799
	$ 611,799	$ 7,864,721	$ 8,476,520

General Fund due to Adult Education Fund for transfer of employees cost	$ 500,000
General Fund due to Cafeteria Fund to clear food service uncollected debt	15,717
General Fund due to Building Fund for Apple invoices	775,518
General Fund due to Special Reserve Fund for Capital Outlay Projects for special reserve transfer	6,273,486
General Fund due to Self-Insurance Fund for workers compensation	300,000
Adult Education Fund due to General Fund for indirect costs and benefits	64,736
Child Development Fund due to General Fund for indirect costs and benefits	91,400
Cafeteria Fund due to General Fund for indirect costs and benefits	448,809
Building Fund due to General Fund for benefits	6,854
Total	$ 8,476,520

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2018, consisted of the following:

General Fund to Special Reserve Fund for Capital Outlay Projects for RDA funds and special revenue transfer	$ 5,065,339
General Fund to Self-Insurance Fund for insurance expenses	300,000
Total	$ 5,365,339

NOTE 5 – FUND BALANCES

At June 30, 2018, fund balances of the District's governmental funds were classified as follows:

	General Fund	County School Facilities Fund	Capital Projects Fund for Component Units	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	$ 150,000	$ -	$ -	$ -	$ 150,000
Stores inventories	264,999	-	-	89,412	354,411
Prepaid expenditures	8,654	-	-	-	8,654
Total Nonspendable	423,653	-	-	89,412	513,065
Restricted:					
Categorical programs	18,411,323	-	-	-	18,411,323
Adult Education Program	-	-	-	501,613	501,613
Food Service Program	-	-	-	2,476,069	2,476,069
Capital projects	-	39,594,489	29,210,782	49,403,660	118,208,931
Debt service	-	-	-	11,076,855	11,076,855
Total Restricted	18,411,323	39,594,489	29,210,782	63,458,197	150,674,791
Committed:					
Adult education program	-	-	-	839,522	839,522
Benefit accounts	140,000	-	-	-	140,000
Vacation liability	1,109,470	-	-	-	1,109,470
Local protection reserve	17,443,465	-	-	-	17,443,465
Facilities maintenance reserve	5,600,262	-	-	-	5,600,262
Technology reserve	5,421,468	-	-	-	5,421,468
Classroom furniture reserve	750,000	-	-	-	750,000
One-time discretionary	13,991,885	-	-	-	13,991,885
Textbook adoption	3,800,000	-	-	-	3,800,000
Anthem HRA balance reserve	236,513	-	-	-	236,513
EL carryover	2,024,829	-	-	-	2,024,829
School local program carryover	610,289	-	-	-	610,289
Future school opening	500,000	-	-	-	500,000
Declining enrollment reserve	1,400,000	-	-	-	1,400,000
LCAP & District priority	2,000,000	-	-	-	2,000,000
Other commitments	7,893,576	-	-	-	7,893,576
Total Committed	62,921,757	-	-	839,522	63,761,279
Assigned:					
Child development operations	-	-	-	680,781	680,781
Deferred maintenance program	9,524,990	-	-	-	9,524,990
Total Assigned	9,524,990	-	-	680,781	10,205,771
Unassigned:					
Reserve for economic uncertainties	7,742,762	-	-	7,644,548	15,387,310
Total Unassigned	7,742,762	-	-	7,644,548	15,387,310
Total	$ 99,024,485	$ 39,594,489	$ 29,210,782	$ 72,712,460	$ 240,542,216

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance, July 1, 2017	Additions	Retirements	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	$ 176,147,527	$ -	$ -	$ 176,147,527
Construction in progress	8,062,329	10,326,780	4,864,817	13,524,292
Total capital assets not being depreciated	184,209,856	10,326,780	4,864,817	189,671,819
Capital assets being depreciated:				
Improvement of sites	64,698,686	2,103,350	-	66,802,036
Buildings	481,590,317	9,236,468	-	490,826,785
Equipment	25,781,041	1,628,127	135,348	27,273,820
Total capital assets being depreciated	572,070,044	12,967,945	135,348	584,902,641
Accumulated depreciation for:				
Improvement of sites	(16,337,744)	(3,016,353)	-	(19,354,097)
Buildings	(117,583,596)	(11,461,254)	-	(129,044,850)
Equipment	(14,965,899)	(1,856,438)	(125,429)	(16,696,908)
Total accumulated depreciation	(148,887,239)	(16,334,045)	(125,429)	(165,095,855)
Total capital assets being depreciated, net	423,182,805	(3,366,100)	9,919	419,806,786
Governmental activity capital assets, net	$ 607,392,661	$ 6,960,680	$ 4,874,736	$ 609,478,605

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Advance Refundings	Balance, June 30, 2018	Amount Due Within One Year
General Obligation Bonds:						
Principal Payments	$ 168,467,088	$ 41,215,000	$ 5,246,212	$ 23,000,000	$ 181,435,876	$ 6,170,680
Accreted Interest	1,866,071	299,125	903,789	-	1,261,407	469,320
Unamortized Issuance Premium	17,253,798	4,263,714	1,892,164	-	19,625,348	1,261,792
Total - GO Bonds	187,586,957	45,777,839	8,042,165	23,000,000	202,322,631	7,901,792
Workers' Compensation Claims	5,325,973	-	-	-	5,325,973	-
Compensated Absences	1,068,719	40,751	-	-	1,109,470	-
Other Postemployment Benefits*	25,598,570	3,651,338	1,719,999	-	27,529,909	-
Totals	$ 219,580,219	$ 49,469,928	$ 9,762,164	$ 23,000,000	$ 236,287,983	$ 7,901,792

Note: Restated by $1,517,549 to reflect the MPP OPEB liability in accordance with GASB Statement No. 75

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

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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.

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% 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.

Prior-Year Defeasance of Debt
In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, $68 million of bonds outstanding are considered defeased, which includes $23 million for the bonds described in the next section.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2018, deferred amounts on refunding were $9,312,775, which includes $532,561 for the bonds described in the next section.

2018 General Obligation Refunding Bonds
On December 21, 2017, the District issued $21,215,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between four and five percent with annual maturities from August 1, 2026 through August 1, 2034. The net proceeds of $24,258,835 (after issuance costs of $267,453 and premiums of $3,311,288) were used to prepay a portion of the District's outstanding General Obligation Refunding Bonds of 2002 and 2008.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2018 General Obligation Refunding Bonds (continued)

The refunding decreased the District's total debt service payments by $2,808,275. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of $2,085,386.

Below is a schedule of bonds issued and outstanding as of June 30, 2018.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, 7/1/2017	Additions	Deductions	Refunded	Balance, June 30, 2018
Measure G:									
2002C	5/1/2008	2032	4.0%-5.0%	$ 22,649,972	$ 375,634	$ -	$ 375,634	$ -	$ -
2002D	3/10/2010	2034	6.0%-6.9%	24,998,556	13,701,454	-	710,578	10,000,000	2,990,876
Measure L:									
2008A	3/30/2010	2034	3.0% - 6.6%	25,000,000	15,850,000	-	670,000	13,000,000	2,180,000
2008B	6/9/2011	2037	2.0% - 5.0%	25,000,000	3,115,000	-	380,000	-	2,735,000
2008C	5/8/2013	2042	2.0% - 4.0%	25,000,000	23,445,000	-	300,000	-	23,145,000
2008D	2/18/2015	2038	3.0% - 3.4%	20,000,000	19,690,000	-	50,000	-	19,640,000
Measure S:									
2012A	3/14/2013	2037	2.0% - 5.0%	35,000,000	27,720,000	-	2,310,000	-	25,410,000
2012B	2/15/2018	2041	2.0% - 5.0%	20,000,000	-	20,000,000	-	-	20,000,000
Refunding Bonds:									
Refunding	1/28/2015	2032	2.0% - 5.0%	23,795,000	23,135,000	-	370,000	-	22,765,000
Refunding	4/6/2016	2029	5.0%	15,195,000	15,195,000	-	-	-	15,195,000
Refunding	4/6/2016	2037	2.0% - 5.0%	26,545,000	26,240,000	-	80,000	-	26,160,000
Refunding	12/21/2017	2035	4.0% - 5.0%	9,345,000	-	9,345,000	-	-	9,345,000
Refunding	12/21/2017	2035	4.0% - 5.0%	11,870,000	-	11,870,000	-	-	11,870,000
					$ 168,467,088	$ 41,215,000	$ 5,246,212	$ 23,000,000	$ 181,435,876
			Accreted Interest:	Series					
				2002C	$ 441,395	$ 72,971	$ 514,366	$ -	$ -
				2002D	1,424,676	226,154	389,423	-	1,261,407
					$ 1,866,071	$ 299,125	$ 903,789	$ -	$ 1,261,407

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

Fiscal Year	Principal	Interest	Total
2018-19	$ 6,170,680	$ 8,853,545	$ 15,024,225
2019-20	6,966,135	8,755,548	15,721,683
2020-21	7,088,136	8,502,772	15,590,908
2021-22	8,010,925	7,379,525	15,390,450
2022-23	9,520,000	6,285,625	15,805,625
2023-28	40,340,000	25,537,100	65,877,100
2028-33	45,680,000	15,175,897	60,855,897
2033-38	36,520,000	6,602,831	43,122,831
2038-43	21,140,000	1,666,478	22,806,478
	$ 181,435,876	$ 88,759,321	$ 270,195,197

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

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 $233,704,835 as of June 30, 2018, 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.

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, 2017 (Audited)
Total Assets	$ 432,804,369
Deferred Outflows of Resources	1,683,588
Total Liabilities	239,767,762
Deferred Inflows of Resources	604,583
Net Position	$ 194,115,612
Total Revenues	$ 271,484,105
Total Expenditures	262,183,364
Change in Net Assets	$ 9,300,741

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, 2018, the District had commitments with respect to unfinished capital projects of approximately $10.9 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, 2018.

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, 2018, 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 2017-18, 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.

NOTE 10 – RISK MANAGEMENT (continued)

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, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	$ 4,085,152
Claims and changes in estimates	1,245,261
Claims payments	(440)
Liability Balance, June 30, 2017	5,329,973
Claims and changes in estimates	4,514
Claims payments	(4,514)
Liability Balance, June 30, 2018	$ 5,325,973
Assets available to pay claims at June 30, 2018	$ 7,644,548

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 the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 188,405,426	$ 54,304,283	$ 8,303,855	$ 21,743,934
CalPERS	64,486,058	22,243,520	759,243	12,314,624
Total	$ 252,891,484	$ 76,547,803	$ 9,063,098	$ 34,058,558

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

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

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Plan Description (continued)
A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

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

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

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Employee Contribution Rate	10.25%	9.205%
Required Employer Contribution Rate	14.43%	14.43%
Required State Contribution Rate	9.328%	9.328%

Contributions
Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $15,595,318.

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:		
District's proportionate share of net pension liability	$	188,405,426
State's proportionate share of the net pension liability associated with the District		43,999,944
Total	$	232,405,370

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.2037%	0.2030%	0.0007%

For the year ended June 30, 2018, the District recognized pension expense of $21,743,934. In addition, the District recognized pension expense and revenue of $1,986,218 for support provided by the State. At June 30, 2018, 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	$ 15,595,318	$ -
Net change in proportionate share of net pension liability	3,107,918	-
Difference between projected and actual earnings on pension plan investments	-	5,017,761
Changes of assumptions	34,904,305	-
Differences between expected and actual experience in the measurement of the total pension liability	696,742	3,286,094
Total	$ 54,304,283	$ 8,303,855

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 1,724,335
2020	9,052,344
2021	6,350,943
2022	1,437,082
2023	6,275,565
Thereafter	5,564,841
Total	$ 30,405,110

Actuarial Methods and Assumptions

Total pension liability for STRS was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Methods and Assumptions (continued)
CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study.

For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%

Discount Rate
The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

NOTE 11 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 276,638,979
Current discount rate (7.10%)	188,405,426
1% increase (8.10%)	116,797,918

On Behalf Payments
The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $9,064,008 (9.328% of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures. On behalf payments have been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

B. California Public Employees Retirement System (CalPERS)

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

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

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Benefits Provided (continued)
The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.00%
Required Employer Contribution Rate	15.531%	15.531%

Contributions
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $5,696,919.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $64,486,058. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2018	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Proportion of the Net Pension Liability	0.2701%	0.2632%	0.0069%

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)
For the year ended June 30, 2018, the District recognized pension expense of $12,314,624. At June 30, 2018, 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	$ 5,696,919	$ -
Net change in proportionate share of net pension liability	2,586,352	-
Difference between projected and actual earnings on pension plan investments	2,230,776	-
Changes of assumptions	9,419,203	759,243
Differences between expected and actual experience in the measurement of the total pension liability	2,310,270	-
Total	$ 22,243,520	$ 759,243

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 4,570,832
2020	7,134,040
2021	5,019,609
2022	(937,123)
2023	-
Thereafter	-
Total	$ 15,787,358

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Actuarial Methods and Assumptions
Total pension liability for SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ 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 adjusted to account for assumed administration expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate
The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 94,879,656
Current discount rate (7.15%)	64,486,058
1% increase (8.15%)	39,272,023

C. Social Security
As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

D. Payables to the Pension Plans
At June 30, 2018, the District reported payables of $1,109,623 and $17,013 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2018.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. General Information about the OPEB Plan

Plan Description
The District's defined benefit OPEB plan provides OPEB for all permanent full-time certificated and classified employees of the District. The Plan is a single-employer defined benefit OPEB plan administered by the District. Article 6 of the Certificated and Classified Collective Bargaining Agreements grants the authority to establish and amend the benefit terms and financing requirements to the governing board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided
Following is a description of the current retiree plan:

	Certificated Management	**Certificated**	**Classified**	**Classified Management**
Benefit types provided	Medical and dental	Medical and dental	Medical and dental	Medical and dental
Duration of benefits	To age 65	To age 65	To age 65	To age 65
Required service	8 years	8 years	5 years	5 years
Minimum age	50	50	50	50
Dependent coverage	No	No	No	No
District contribution %	100% of single rate after retiree contribution that varies by plan	100% of single rate after retiree contribution that varies by plan	100% of single rate after retiree contribution that varies by plan	100% of single rate after retiree contribution that varies by plan

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

A. General Information about the OPEB Plan (continued)

Employees Covered by Benefit Terms
At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	80
Active employees	1,574
Total	1,654

B. Total OPEB Liability
The District's total OPEB liability of $26,165,772 for the District Plan was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2017. The District's proportionate share of the net MPP Program OPEB liability of $1,364,137 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

Actuarial Assumptions and Other Inputs
The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	District Plan	MPP Program
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	N/A	July 1, 2010, through June 30, 2015
Inflation	2.75 percent	N/A
Salary increases	2.75 percent	N/A
Healthcare cost trend rates	4.0 percent	3.58 percent
Retirees' share of benefit-related costs	100% of single rate; after that retiree contribution varies by plan	3.7 percent for Medicare Part A, and 4.1 percent for Medicare Part B

<u>District Plan</u>
The discount rate is 3.8 percent per year net of expenses based on the Bond Buyer 20 Bond Index.

The discount rate was based on the Bond Buyer 20 Bond Index.

Following are the tables the mortality assumptions are based upon.

2009 CalSTRS Mortality
The mortality assumptions are based on the 2009 CalSTRS Mortality table created by CalSTRS. CalSTRS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

2014 CalPERS Retiree and Active Mortality for Miscellaneous Employees
The mortality assumptions are based on the 2014 CalPERS Retiree and Active Mortality for Miscellaneous Employees tables created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

B. Total OPEB Liability (continued)

Following are the tables the retirement and turnover assumptions are based upon.

2009 CalSTRS Retirement Rates

The retirement assumptions are based on the 2009 CalSTRS Retirement Rates table created by CalSTRS. CalSTRS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees

The retirement assumptions are based on the 2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

2009 CalPERS Retirement Rates for School Employees

The retirement assumptions are based on the 2009 CalPERS Retirement Rates for School Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

MPP Program

The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

C. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	$ 24,081,021
Changes for the year:	
Service cost	2,566,474
Interest	948,599
Assumption changes	(628,089)
Benefit payments	(802,233)
Net changes	2,084,751
Balance at June 30, 2018	26,165,772
District's Proportionate Share of the Net MPP OPEB Liability	1,364,137
District's Total Reported Net OPEB Liability	$ 27,529,909

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

C. Changes in the Total OPEB Liability (continued)

Sensitivity of the total OPEB liability to Changes in the Discount Rate
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (4.8 percent) than the current discount rate:

	1% Decrease 2.8%	Discount Rate 3.8%	1% Increase 4.8%
District Plan	$ 28,117,467	$ 26,165,772	$ 24,332,458

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
MPP Program	$ 1,510,194	$ 1,364,137	$ 1,222,065

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current healthcare cost trend rate:

	1% Decrease 3.0%	Healthcare Cost Trend Rates 4.0%	1% Increase 5.0%
District Plan	$ 18,143,518	$ 26,165,772	$ 36,142,183

	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Cost Trend Rates (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
MPP Program	$ 1,232,706	$ 1,364,137	$ 1,494,254

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $3,515,073. At June 30, 2018, the District reported deferred inflows of resources of $583,857 related to OPEB for changes in assumptions. The District did not report any deferred outflows of resources related to OPEB.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources
2019	$ (44,232)
2020	(44,232)
2021	(44,232)
2022	(44,232)
2023	(44,232)
Thereafter	(362,697)
	$ (583,857)

NOTE 13 – ADJUSTMENT FOR RESTATEMENT

The District elected to implement the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Other Than Pensions" during the fiscal year ended June 30, 2017; however, the reported liability did not include the OPEB liability for the Medicare Premium Payment (MPP) Program administered by CalPERS. As a result, the District's net position at June 30, 2017, on the Statement of Activities has been decreased by $1,517,549.

Required Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT

Budgetary Comparison Schedule – General Fund

For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual*	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
LCFF sources	$ 197,963,171	$ 196,707,303	$ 196,707,303	$ -
Federal sources	7,909,894	9,686,312	9,106,331	(579,981)
Other State sources	32,457,748	38,378,871	37,479,825	(899,046)
Other Local sources	7,775,228	13,717,762	13,620,866	(96,896)
Total Revenues	246,106,041	258,490,248	256,914,325	(1,575,923)
Expenditures				
Current:				
Certificated salaries	112,585,405	109,472,813	109,444,975	27,838
Classified salaries	37,726,190	38,392,932	38,392,873	59
Employee benefits	62,449,037	61,141,462	61,141,295	167
Books and supplies	12,821,758	14,589,396	13,109,047	1,480,349
Services and other operating expenditures	23,158,724	22,518,558	22,451,050	67,508
Transfers of indirect cost	(390,300)	(426,394)	(426,394)	-
Capital outlay	456,500	4,628,959	4,628,959	-
Intergovernmental transfers	3,254,765	2,984,910	2,984,908	2
Total Expenditures	252,062,079	253,302,636	251,726,713	1,575,923
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,956,038)	5,187,612	5,187,612	-
Other Financing Sources and Uses				
Interfund transfers out	(3,500,000)	(6,365,339)	(5,365,339)	1,000,000
Total Other Financing Sources and Uses	(3,500,000)	(6,365,339)	(5,365,339)	1,000,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(9,456,038)	(1,177,727)	(177,727)	1,000,000
				-
Fund Balances, July 1, 2017	77,991,614	82,783,646	82,783,646	-
Fund Balances, June 30, 2018	$ 68,535,576	$ 81,605,919	$ 82,605,919	$ 1,000,000

* 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 Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*

	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.2037%	0.2030%	0.2080%	0.1970%
District's proportionate share of the net pension liability	$ 188,405,426	$ 164,188,430	$ 140,033,920	$ 115,120,890
State's proportionate share of the net pension liability associated with the District	43,999,944	93,483,306	74,062,308	69,515,662
Totals	$ 232,405,370	$ 257,671,736	$ 214,096,228	$ 184,636,552
District's covered-employee payroll	$ 109,128,959	$ 102,439,748	$ 95,210,923	$ 88,358,545
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.64%	160.28%	147.08%	130.29%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.2701%	0.2632%	0.2573%	0.2517%
District's proportionate share of the net pension liability	$ 64,486,058	$ 51,982,163	$ 37,926,274	$ 28,574,079
District's covered-employee payroll	$ 34,400,173	$ 31,604,288	$ 28,447,600	$ 26,511,816
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	187.46%	164.48%	133.32%	107.78%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Notes to Schedule:

Changes in Benefit Terms
A summary of the plan provisions that were used for a specific plan can be found in each plan's annual valuation report.

Change of Assumptions and Methods
CalSTRS:
The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

CalPERS:
In Fiscal Year 2016-17, the financial reporting discount rate for the PERF B was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF B from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2017, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

* *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 Pension Contributions

For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*

	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	$ 15,595,318	$ 13,728,423	$ 10,991,785	$ 8,454,730
Contributions in relation to the contractually required contribution	15,595,318	13,728,423	10,991,785	8,454,730
Contribution deficiency (excess):	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 108,075,663	$ 109,128,959	$ 102,439,748	$ 95,210,923
Contributions as a percentage of covered-employee payroll	14.43%	12.58%	10.73%	8.88%
CalPERS				
Contractually required contribution	$ 5,696,919	$ 4,777,496	$ 3,744,160	$ 3,348,567
Contributions in relation to the contractually required contribution	5,696,919	4,777,496	3,744,160	3,348,567
Contribution deficiency (excess):	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 36,680,954	$ 34,400,173	$ 31,604,288	$ 28,447,760
Contributions as a percentage of covered-employee payroll	15.531%	13.888%	11.847%	11.771%

* *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 Changes in the District's Total OPEB Liability and Related Ratios

For the Fiscal Year Ended June 30, 2018

Last 10 Fiscal Years*

	2017
Total OPEB liability	
Service cost	$ 2,566,474
Interest	948,599
Changes of assumptions or other inputs	(628,089)
Benefit payments	(802,233)
Net change in total OPEB liability	2,084,751
Total OPEB liability - beginning	24,081,021
Total OPEB liability - ending	$ 26,165,772
Covered-employee payroll	$ 143,837,848
Total OPEB liability as a percentage of covered-employee payroll	18.19%

Notes to Schedule:

Changes of assumptions. The discount rate was changed from 3.3% as of June 30, 2017 to 3.8% as of June 30, 2018, based on the published change in return for the applicable Bond Buyer 20 Bond Index.

** 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 Changes in the District's Total OPEB Liability and Related Ratios – MPP Program
For the Fiscal Year Ended June 30, 2018

(Dollars in Thousands, except for District's proportionate share)

	2017
Total OPEB liability	
Interest	$ 12,928
Differences between expected and actual experience	(41)
Changes of assumptions	(31,240)
Benefit payments, including refunds of member contributions	(28,929)
Net change in total OPEB liability	(47,282)
Total OPEB liability - beginning	468,031
Total OPEB liability - ending	$ 420,749
Plan fiduciary net position	
Contributions - employer	$ 29,117
Net investment income	11
Premiums paid	(28,929)
Administrative expense	(168)
Net change in plan fiduciary net position	31
Plan fiduciary net position - beginning	10
Plan fiduciary net position - ending	$ 41
Net OPEB liability	$ 420,708
District's proportionate share of net OPEB liability	$ 1,364,137
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%
Covered-employee payroll	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A

Notes to Schedule:

As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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.

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 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 Pension 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.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios
This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2018, the District did not incur the any excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule.

Supplementary Information

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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, one K-12 online and independent study school, 5 middle schools, 3 comprehensive high schools, a continuation high school, and an alternative/adult education program.

GOVERNING BOARD

Member	Office	Term Expires
Tammie Bullard	President	November, 2020
James Laird	Vice President	November, 2020
Francine Scinto	Clerk	November, 2020
Jonathan Abelove	Member	November, 2018
Lynn Davis	Member	November, 2018

DISTRICT ADMINISTRATORS

Gregory A. Franklin, Ed.D.,
Superintendent

Kathie Nielsen,
Deputy Superintendent, Educational Services

Grant Litfin, Ed.D.,
Assistant Superintendent, Administrative Services

Amy Lambert, Ed.D.,
Assistant Superintendent, Special Education

Anthony Soria,
Chief Financial Officer

Charles Lewis, Ed.D.,
Chief Personnel Officer

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Second Period Report	Annual Report
	Certificate No. (5ADB8FO8)	Certificate No. (4B481F12)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	6,392.74	6,397.31
Fourth through Sixth	5,259.61	5,260.13
Seventh and Eighth	3,808.28	3,804.08
Ninth through Twelfth	7,740.48	7,706.00
Total Regular ADA	23,201.11	23,167.52
Special Education-Nonpublic, Nonsectarian Schools:		
Transitional Kindergarten through Third	1.00	1.33
Fourth through Sixth	0.63	1.13
Seventh and Eighth	3.37	3.51
Ninth through Twelfth	11.20	12.24
Total Special Education-Nonpublic, Nonsectarian Schools	16.20	18.21
Total ADA	23,217.31	23,185.73

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2018

Grade Level	Required	2017-18 Actual Minutes	Number of Days Traditional Calendar*	Status
Kindergarten	36,000	36,272	179	Complied
Grade 1	50,400	54,191	179	Complied
Grade 2	50,400	54,191	179	Complied
Grade 3	50,400	54,191	179	Complied
Grade 4	54,000	54,191	179	Complied
Grade 5	54,000	54,191	179	Complied
Grade 6	54,000	58,716	179	Complied
Grade 7	54,000	58,716	179	Complied
Grade 8	54,000	58,716	179	Complied
Grade 9	64,800	72,913	179	Complied
Grade 10	64,800	72,913	179	Complied
Grade 11	64,800	72,913	179	Complied
Grade 12	64,800	72,913	179	Complied

*The California Department of Education has approved the request for one emergency day on October 10, 2017, for all schools in Tustin Unified School District. This school closure day may be used to meet the instructional time requirements pursuant to California Education Code sections 46200, 46201, 46207, and/or 46208.

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2018

General Fund	(Budget) 2019 [2]	2018 [3]	2017	2016
Revenues and other financing sources	$ 258,699,858	$ 256,914,325	$ 249,636,766	$ 241,807,397
Expenditures	261,703,244	251,726,713	241,132,967	215,583,217
Other uses and transfers out	3,500,000	5,365,339	5,740,808	6,250,831
Total outgo	265,203,244	257,092,052	246,873,775	221,834,048
Change in fund balance (deficit)	(6,503,386)	(177,727)	2,762,991	19,973,349
Ending fund balance	$ 76,102,533	$ 82,605,919	$ 82,783,646	$ 80,020,655
Available reserves [1]	$ 7,956,098	$ 7,742,762	$ 7,406,214	$ 6,655,022
Available reserves as a percentage of total outgo	3.0%	3.0%	3.0%	3.0%
Total long-term debt	$ 481,447,576	$ 489,179,467	$ 435,750,812	$ 387,323,998
Average daily attendance at P-2	23,170	23,217	23,409	23,367

The General Fund balance has increased by approximately $2.6 million over the past two years. The fiscal year 2018-19 adopted budget projects a decrease of approximately $6.5 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 two of the past three years, but anticipates incurring an operating deficit during the 2018-19 fiscal year. Long-term debt has increased by $101.9 million over the past two years.

Average daily attendance has decreased by 150 over the past two years. The District projects a decrease of 47 ADA in 2018-19.

[1] Available reserves consist of all unassigned fund balances in the General Fund.

[2] Budget as of September 2018.

[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.

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, 2018

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	$ 53,954	
School Breakfast Program - Especially Needy	10.553	13526	1,250,531	
National School Lunch Program	10.555	13523	3,667,422	
USDA Donated Foods	10.555	N/A	491,749	
Total Child Nutrition Cluster				$ 5,463,656
Total U.S. Department of Agriculture				5,463,656
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		3,241,170
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		9,961
Title II, Part A, Supporting Effective Instruction State Grant	84.367	14344		441,334
English Language Acquisition State Grants Cluster:				
Title III, Language and Acquisition English Learner Student Program	84.365	14346	83,849	
Title III, Language and Acquisition Immigrant Education Program	84.365	15146	613,773	
Total English Language Acquisition State Grants				697,622
Carl Perkins Act - Secondary	84.048	14894		130,054
Special Education Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	3,268,583	
Preschool Grants, Part B, Sec 619	84.173	13430	74,872	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	386,658	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	270,303	
Preschool Staff Development	84.173A	13431	1,010	
Alternate Dispute Resolution	84.173A	13007	22,508	
Total Special Education Cluster (IDEA)				4,023,934
Early Intervention Grants, Part C	84.181	23761		61,210
Workability II, Transition	84.126	10006		100,556
Total U.S. Department of Education				8,705,841
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Care and Development Funds Cluster:				
Child Care and Development Block Grant	93.575	15136	233,147	
Child Care Mandatory and Matching Funds	93.596	13609	137,291	
Total Child Care and Development Cluster				370,438
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	696,746	
Medi-Cal Administrative Activities (MAA)	93.778	10060	12,537	
Total Medicaid Cluster				709,283
Total U.S. Department of Health & Human Services				1,079,721
Total Expenditures of Federal Awards				$ 15,249,218

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

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.

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.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		$ 15,443,313
Differences between Federal Revenues and Expenditures:		
Qualified School Construction Bonds - Interest Subsidy	Not applicable	(502,888)
Medi-Cal Billing Option	93.778	296,256
Medi-Cal Administrative Activities	93.778	12,537
Total Schedule of Expenditures of Federal Awards		$ 15,249,218

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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, 2018, 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 14, 2018.

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.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Nigro + Nigro, PC.

Murrieta, California
December 14, 2018

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 *2017-18 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, 2018.

Management's Responsibility
Management is responsible for compliance with state laws, regulations, and the terms and conditions of 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 on the following page. 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 *2017-18 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 on the following page that could have a direct and material effect on a state 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 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 above, 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
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

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Description	Procedures Performed
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
Apprenticeship: Related and Supplemental Instruction	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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

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, 2018.

Nigro + Nigro, PC.

Murrieta, California
December 14, 2018

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, 2018. 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, 2018.

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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. 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.

Nigro + Nigro, PC.

Murrieta, California
December 14, 2018

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

State Awards

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

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:

Five Digit Code	AB 3627 Finding Types
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 2017-18.

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 2017-18.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

There were no state award findings or questioned costs in 2017-18.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2017-001: Cafeteria Fund Cash Reserves	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). At June 30, 2017, the restricted fund balance in the Cafeteria Fund was $2,698,777, which exceeds three months average expenditures by $129,945. In the prior year, the District was in compliance with this requirement.	60000	We recommend the District work to spend down excess reserves in coordination with CDE.	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, 2018, 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 14, 2018 on the financial statements of Tustin Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our test of cash disbursements at ***Tustin High,*** we noted disbursements that were not supported by adequate supporting documentation.

Recommendation**:** 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.

Observation: During our test of cash receipts, we noted that documentation was not adequate at ***Foothill High, Tustin High,*** and ***Utt Middle.*** Without supporting documentation, we could not verify whether all cash collected had been deposited intact. The sites were not able to provide items such as prenumbered receipts, tally sheets, order forms, inventory control sheets, or donation letters for amounts collected.

Recommendation: We recommend sound internal controls for handling cash to discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event and fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

Observation**:** In our testing of cash disbursements at ***Beckman High***, ***Foothill High, Tustin High***, ***Currie Middle*** and ***Utt Middle,*** we noted many disbursements were either not approved by the District Representative, the ASB advisor, and/or the student representative or were not approved until after the expenditure was already incurred. 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.

Recommendation: 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.

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ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: In our test of disbursements at ***Beckman High, Foothill High*** and ***Currie Middle,*** we noted that some of the disbursements sampled had no indication to verify that contents were received.

Recommendation: We recommend that after verifying the contents are received that an "O.K. to pay" or "received" marking be indicated and retained. This is an important step, as it ensures payment is not being made for items received incorrectly or not received at all.

Observation: Upon inquiry and through our test of cash disbursements at ***Tustin High*** and ***Utt Middle***, we noted items that were shipped to personal addresses rather than to the site.

Recommendation: We recommend that items purchased for ASB should be shipped directly to the school site rather than a home address to ensure the items are properly received by the ASB and used for the benefit of the students.

Observation: During our testing at ***Foothill High***, we noted that the ASB is used to collect fees for lost or damaged textbooks, IB Science Exams, and the PSAT. ASB accounts are not pass-through or clearing accounts for District funds and accepting District funds into an ASB account is also considered commingling.

Recommendation: We recommend that the sites forward all District funds to the District Office for receipt.

Observation: During our testing at ***Foothill High*** and ***Tustin High,*** we noted that the sites had expenses that are considered unallowable or questionable. They were not allowable because they do not directly benefit a group of students. Anything that is purchased must be for goods and services that promote the students' general welfare, morale, and educational experiences.

Recommendation: 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: Upon inquiry at ***Foothill High*** and ***Utt Middle,*** we noted that the schools conduct food sales of what is considered unhealthy food and beverages within 30 minutes of school ending. The California Childhood Obesity Prevention Act of 2003 and Education Code section 35182.5 establish limits on the sale of specific food and beverage items in grades K-12. For junior, middle, and high schools, the regulations only allow the sale of unhealthy food and beverages on school grounds at least 30 minutes after the end of the school day.

Recommendation: We recommend that the sites are reminded of the rules and regulations regarding food sales.

Observation: At ***Foothill High***, we noted through inquiry that there are not two people present when cash is recounted after an event. Cash should always be counted in the presence of two people as an important safeguard against fraud, to help protect from allegations of fraud, and help establish the chain of custody in order to assist identifying fraud.

Recommendation: We recommend that collections are always double counted with a witness and that this process is documented on a cash count sheet.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: During our testing of cash receipts at ***Utt Middle***, we noted deposits that were not consistently deposited in a timely manner. Deposits were often made more than a month after the money was collected.

Recommendation: We recommend that the site emphasize to the advisors and teachers that deposits should be made to the bookkeeper on a weekly basis or more often as needed. Money should never be left over the weekend or holidays because many thefts often occur during these times.

Observation: Upon inquiry at ***Tustin High,*** we noted that the ASB does not take a physical inventory of the items in the Student Store on a regular basis; they are only being performed annually. Monitoring inventory and the respective sales helps track the money that was raised and provides viable data for budgeting. Additionally, it will help identify short or missing items in a timely manner.

Recommendation: We recommend that a physical inventory count should be performed monthly by two people and compared to the inventory balance. Discrepancies in the counts should be investigated and documented.

Observation: During our review of bank reconciliations at ***Foothill High***, we noted the reconciliations were not prepared timely. For example, reconciliations of bank statements were all performed in mid-March for the months of August-February. Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit. Furthermore, we noted the June bank statement had reconciling items older than six months.

Recommendation: We recommend that all bookkeepers to perform monthly reconciliations within two weeks after the statement arrives. We also recommend that the bookkeepers investigate all reconciling items.

DISTRICT OFFICE

Observation: During our test of cash receipts, we found that 3 out of 23 cash receipts were missing point of sale documentation for the ***High School Summer Recreation Program***. Without the point of sale documentation, we could not verify whether all cash collected had been deposited intact and into the correct amounts. Sound internal controls for handling cash discourage theft of 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.

Recommendation: We recommend that before any events are held, control procedures such as prenumbered cash receipts, or cash register receipts, be established which 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.

Nigro + Nigro, PC.

Murrieta, California
December 14, 2018