

**TUSTIN UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2013**



TUSTIN UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2013
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Tustin Unified School District
Tustin, California

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, 2013, 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. 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, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 41 and schedule of funding progress on page 42 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.

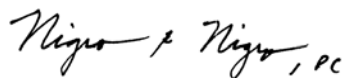
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tustin Unified School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 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.



December 11, 2013

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2013

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, 2013. 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 \$0.3 million, or 0.1% over the course of the year.
- Overall government-wide revenues were \$194.0 million, and overall expenses were \$193.7 million.
- The total cost of basic programs was \$193.7 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$151.8 million.
- The District increased its outstanding long-term debt \$60.5 million or 46.8%. This was primarily due to issuance of new debt in connection with the Measure S bond.
- Average daily attendance (ADA) in grades K-12 increased by 244, or 1.1%.

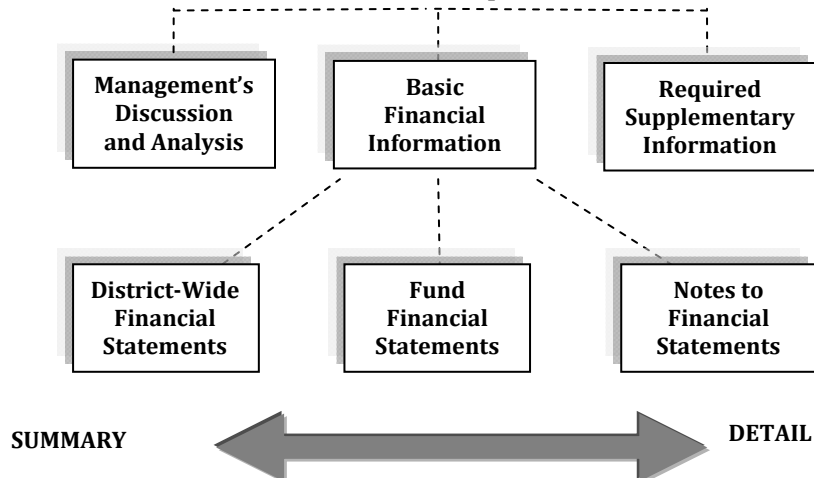
OVERVIEW OF THE FINANCIAL STATEMENTS

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



TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013*

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 liabilities – 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.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2013, than it was the year before – increasing 0.1% to \$554.8 million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2013	2012	
Current assets	\$ 219.1	\$ 180.7	\$ 38.4
Noncurrent assets	2.3	1.8	0.5
Capital assets	545.9	517.4	28.5
Total assets	767.3	699.9	67.4
Current liabilities	22.7	16.1	6.6
Long-term liabilities	189.8	129.3	60.5
Total liabilities	212.5	145.4	67.1
Net position			
Net investment in capital assets	420.8	417.2	3.6
Restricted	95.4	102.1	(6.7)
Unrestricted	38.6	35.2	3.4
Total net position	\$ 554.8	\$ 554.5	\$ 0.3

Changes in net position, governmental activities. The District's total revenues increased 1.9% to \$194.0 million (See Table A-2). The increase is due primarily to increased federal and state aid.

The total cost of all programs and services increased 5.1% to \$193.7 million. The District's expenses are predominantly related to educating and caring for students, 73.3%. The purely administrative activities of the District accounted for just 4.2% of total costs. A significant contributor to the increase in costs was payments for instructional and plant service costs.

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2013	2012	
Total Revenues	\$ 194.0	\$ 190.3	\$ 3.7
Total Expenses	193.7	184.3	9.4
Increase (decrease) in net position	\$ 0.3	\$ 6.0	\$ (5.7)

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

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 \$198 million, which is above last year's ending fund balance of \$165.9 million. The primary cause of the increased fund balance is from proceeds of general obligation bonds.

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 \$5.9 million primarily to reflect federal and state budget actions
- Expenses – decreased about \$9.4 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 \$8.3 million, the actual results for the year show that revenues exceeded expenditures by roughly \$9.8 million. Actual revenues were \$3.4 million less than anticipated, but expenditures were \$5.0 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2013 that will be carried over into the 2013-14 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012-13 the District had invested \$40.1 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 \$11.3 million.

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

	Governmental Activities		Variance Increase (Decrease)
	(In millions)		
	2013	2012	
Land	\$ 176.1	\$ 176.1	\$ -
Improvement of sites	23.5	18.4	5.1
Buildings	326.4	272.1	54.3
Equipment	6.0	5.5	0.5
Construction in progress	13.9	45.3	(31.4)
Total	\$ 545.9	\$ 517.4	\$ 28.5

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$189.8 million in general obligation bonds, compensated absences, other postemployment benefits and workers' compensation claims – a increase of 46.8% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance
	(In millions)		
	2013	2012	Increase (Decrease)
General obligation bonds	\$ 178.4	\$ 118.5	\$ 59.9
Workers compensation claims	5.4	6.4	(1.0)
Compensated absences	1.1	1.3	(0.2)
Other postemployment benefits	4.9	3.1	1.8
Total	\$ 189.8	\$ 129.3	\$ 60.5

FACTORS BEARING ON THE DISTRICT'S FUTURE

Budget Overview

The final budget package was signed by the Governor on June 27, 2013. Notably, aside from one action to correct a technical error in the Franchise Tax Board budget, the Governor did not use his line-item veto authority to reduce or eliminate non-Proposition 98 General Fund spending. The Governor did, however, reduce spending from other funds by \$5.6 million.

The state spending plan assumes total budget expenditures of \$138.3 billion from the General Fund and special funds, an increase of 3 percent over 2012-13. This consists of \$96.3 billion from the General Fund and Education Protection Account created by Proposition 30 (2012), as well as \$42 billion from special funds. The budget estimates that spending from federal funds in 2013-14 will total \$87.6 billion, an increase of 7.7 percent over 2012-13.

The administration's May Revision estimates of 2012-13 revenues were about \$2.3 billion higher than when the 2012-13 spending plan was adopted last year. These higher revenues result in \$2.5 billion in additional expenditures under the Proposition 98 minimum funding guarantee for K-14 education. In addition, higher expenditures in other areas contributed to the estimated 2012-13 General Fund ending balance being about \$694 million lower than was assumed in the 2012-13 spending plan. Nevertheless, under the spending plan 2012-13 would end with a \$254 million reserve, the first such year-end positive balance in the reserve since 2007-08.

The spending plan assumes General Fund and Education Protection Account revenues of \$97.1 billion and expenditures of \$96.3 billion. The resulting \$817 million operating surplus combined with the \$254 million positive ending balance for 2012-13 produce an estimated \$1.1 billion reserve for 2013-14.

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Major Spending Changes

For K-12 education, the largest 2013-14 augmentation (\$2.1 billion) is for implementing the Local Control Funding Formula (LCFF) for school districts. Other major 2013-14 K-12 augmentations include \$406 million in grants and loans for energy projects, an additional \$250 million on a one-time basis for the Common Core State Standards initiative, \$250 million on a one-time basis for a new Career Pathways program, \$50 million to augment the mandate block grant, \$32 million to implement the LCFF for county offices of education (COEs), and \$10 million to establish the California Collaborative for Educational Excellence (CCEE) to provide low-performing school districts with academic assistance.

The budget also further pays down K-12 deferrals. Additionally, the budget includes a 1.57 percent cost-of-living adjustment (COLA) for certain K-12 categorical programs. The budget includes a slight increase to reflect 0.2 percent growth in K-12 ADA. The budget also provides a \$26 million (5 percent) increase to the part-day/part-year State Preschool program to support approximately 7,100 new preschool slots.

In 2013-14, despite fewer overall resources compared to 2012-13, much less funding is designated for paying down deferrals. This frees up funds in 2013-14 that can be used for other purposes. In total, the budget includes a \$2.6 billion increase in K-12 ongoing funding. Ongoing funding per student (as measured by ADA) increases from \$7,590 in 2012-13 to \$8,005 in 2013-14—an increase of \$415 (5.5 percent).

LCFF for School Districts and Charter Schools

The budget package includes a major restructuring of the state's funding system for school districts and charter schools. The new LCFF system replaces existing funding formulas for revenue limits and most categorical programs with a weighted student funding formula. Over the course of implementation, districts will receive additional funding to reduce the same share of the gap between their existing per-pupil funding rates and their targets under the LCFF. Full implementation of the LCFF is expected to take eight years (with full implementation in 2020-21) and cost \$18 billion (not accounting for future COLA costs). The *2013-14 Budget Act* provides first-year funding of \$2.1 billion. This is expected to close 12 percent of each district's gap.

Deferral Paydowns

After four consecutive years of increasing the amount of deferrals for schools and community colleges—reaching a total of \$10.4 billion in outstanding deferrals by the end of 2011-12—the 2012-13 budget plan provided \$2.2 billion to reduce the amount of outstanding deferrals. The recently enacted budget plan makes an additional \$1.8 billion in 2012-13 deferral paydowns as well as \$272 million in paydowns in 2013-14. Under the budget package, \$6.2 billion in outstanding deferrals remain as of the end of 2013-14.

Common Core Implementation

The budget plan provides \$1.25 billion in one-time funding to schools for implementation of the CCSS. (Of this amount, the budget plan counts \$1 billion towards meeting the 2012-13 minimum guarantee and \$250 million towards meeting the 2013-14 guarantee.) The CCSS are nationally developed standards for math and English/Language Arts that the state adopted in 2010. Under current law, schools are required to align instruction to the CCSS beginning in 2014-15. The \$1.25 billion in CCSS funding must be spent in 2013-14 or 2014-15 for professional development, instructional materials, and technology that assist schools in aligning instruction to the CCSS. Local governing boards are required in a series of public meetings to discuss and adopt a plan for spending the funds and must report how the funds were spent to the California Department of Education (CDE) by July 1, 2015.

TUSTIN UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 39

Passed by the voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings.

Adult Education

In an effort to improve coordination among adult education providers, the budget provides \$25 million (Proposition 98 General Fund) for a new Adult Education Consortium Program. School districts and community colleges that form a regional consortium are eligible to apply for these funds.

In a related action, the budget package eliminates school districts' adult education categorical program and consolidates all associated annual funding (\$635 million Proposition 98 General Fund) into the school district LCFF. The budget package, however, contains a requirement for school districts (through their adult schools) to maintain at least their 2012-13 level of state spending on adult education in 2013-14 and 2014-15.

New Career Pathways Program

The budget provides \$250 million in one-time Proposition 98 funding to create a "California Career Pathways Trust." The primary purpose of the new program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K-14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum.

Special Education

The budget package makes three notable changes to special education funding. First, the package simplifies the state's approach to distributing funding to special education local plan areas (SELPA's) by delinking state and federal special education allocation formulas. A conforming change revises the "statewide target rate" used to fund new students to the updated statewide average per-pupil funding rate. Second, the budget provides \$2.6 million in Proposition 98 funds to fully offset federal sequestration funding cuts for preschoolers and infants/toddlers with disabilities and provides \$2.1 million in federal carryover funds to partially mitigate federal sequestration funding cuts for K-12 students with disabilities. Third, the package consolidates 11 special education categorical grants into 5 larger grants.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2013-14 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, 2013*

	Total Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 195,055,949
Investments	6,669,272
Accounts receivable	17,003,234
Inventories	351,066
Total current assets	<u>219,079,521</u>
Noncurrent assets:	
Unamortized debt issuance costs	<u>2,347,808</u>
Capital assets:	
Non-depreciable assets	190,056,902
Depreciable assets	451,325,526
Less accumulated depreciation	<u>(95,478,789)</u>
Total capital assets, net of depreciation	<u>545,903,639</u>
 Total assets	 <u>767,330,968</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	22,332,301
Deferred revenue	349,982
Total current liabilities	<u>22,682,283</u>
Long-term liabilities:	
Due within one year	4,359,938
Due after one year	185,450,119
Total long-term liabilities	<u>189,810,057</u>
 Total liabilities	 <u>212,492,340</u>
 NET POSITION	
Net investment in capital assets	420,796,186
Restricted for:	
Capital projects	67,347,565
Debt service	6,315,085
Categorical programs	14,691,746
Workers' compensation claims	7,111,279
Unrestricted	<u>38,576,767</u>
 Total net position	 <u>\$ 554,838,628</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
Instructional services:					
Instruction	\$ 105,038,473	\$ 31,739	\$ 20,197,608	\$ 2,569,146	\$ (82,239,980)
Instruction-related services:					
Supervision of instruction	4,552,512	9	2,412,759	-	(2,139,744)
Instructional library, media and technology	961,341	-	-	-	(961,341)
School site administration	12,040,436	3,950	98,805	-	(11,937,681)
Pupil support services:					
Home-to-school transportation	3,876,690	42,496	515,115	-	(3,319,079)
Food services	6,825,001	1,378,807	5,560,617	-	114,423
All other pupil services	8,678,494	3,722	3,843,268	-	(4,831,504)
General administration services:					
Data processing services	1,353,671	-	-	-	(1,353,671)
Other general administration	6,810,148	63,408	2,068,100	-	(4,678,640)
Plant services	21,728,632	-	42,317	-	(21,686,315)
Ancillary services	1,076,689	-	1,055,667	-	(21,022)
Community services	1,269,849	-	-	-	(1,269,849)
Interest on long-term debt	6,143,398	-	-	-	(6,143,398)
Other outgo	2,038,651	-	2,028,085	-	(10,566)
Depreciation (unallocated)	11,309,027	-	-	-	(11,309,027)
Total Governmental Activities	<u>\$ 193,703,012</u>	<u>\$ 1,524,131</u>	<u>\$ 37,822,341</u>	<u>\$ 2,569,146</u>	<u>(151,787,394)</u>
General Revenues:					
					101,925,638
					47,389,804
					261,109
					2,509,801
					<u>152,086,352</u>
					298,958
					554,539,670
					<u>\$ 554,838,628</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 67,364,270	\$ 45,060,023	\$ 53,577,307	\$ 29,054,349	\$ 195,055,949
Investments	-	-	-	6,669,272	6,669,272
Accounts receivable	14,987,569	16,163	13,671	1,761,127	16,778,530
Due from other funds	367,316	473	-	2,379,047	2,746,836
Inventories	287,406	-	-	63,660	351,066
Total Assets	<u>\$ 83,006,561</u>	<u>\$ 45,076,659</u>	<u>\$ 53,590,978</u>	<u>\$ 39,927,455</u>	<u>\$ 221,601,653</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 16,407,689	\$ 3,527,192	\$ 7,608	\$ 554,242	\$ 20,496,731
Due to other funds	2,379,520	5,583	-	361,733	2,746,836
Deferred revenue	349,982	-	-	-	349,982
Total Liabilities	<u>19,137,191</u>	<u>3,532,775</u>	<u>7,608</u>	<u>915,975</u>	<u>23,593,549</u>
Fund Balances					
Nonspendable	437,406	-	-	63,660	501,066
Restricted	9,538,801	41,543,884	53,583,370	38,947,820	143,613,875
Assigned	25,764,559	-	-	-	25,764,559
Unassigned	28,128,604	-	-	-	28,128,604
Total Fund Balances	<u>63,869,370</u>	<u>41,543,884</u>	<u>53,583,370</u>	<u>39,011,480</u>	<u>198,008,104</u>
Total Liabilities and Fund Balances	<u>\$ 83,006,561</u>	<u>\$ 45,076,659</u>	<u>\$ 53,590,978</u>	<u>\$ 39,927,455</u>	<u>\$ 221,601,653</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2013

Total fund balances - governmental funds \$ 198,008,104

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

Capital assets at historical cost	641,382,428	
Accumulated depreciation	<u>(95,478,789)</u>	
Net:		545,903,639

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: (1,835,570)

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

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included on the statement of net position are: 2,347,808

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

General obligation bonds	178,361,956	
Workers' compensation claims	5,447,901	
Compensated absences	1,123,435	
Other postemployment benefits	<u>4,876,765</u>	<u>(189,810,057)</u>

Total net position - governmental activities \$ 554,838,628

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2013

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 122,179,244	\$ -	\$ -	\$ -	\$ 122,179,244
Federal sources	9,802,151	-	-	6,274,909	16,077,060
Other state sources	36,525,858	-	2,569,146	1,642,828	40,737,832
Other local sources	4,498,866	72,099	193,697	10,268,386	15,033,048
Total Revenues	<u>173,006,119</u>	<u>72,099</u>	<u>2,762,843</u>	<u>18,186,123</u>	<u>194,027,184</u>
EXPENDITURES					
Current:					
Instruction	103,950,020	-	-	604,534	104,554,554
Instruction-related services:					
Supervision of instruction	4,513,863	-	-	14,472	4,528,335
Instructional library, media and technology	952,684	-	-	-	952,684
School site administration	11,911,659	-	-	81,882	11,993,541
Pupil support services:					
Home-to-school transportation	3,876,279	-	-	-	3,876,279
Food services	(48,658)	-	-	6,877,890	6,829,232
All other pupil services	8,580,962	-	-	64,477	8,645,439
Ancillary services	1,075,980	-	-	-	1,075,980
Community services	359,072	-	-	908,080	1,267,152
Enterprise activities	-	-	-	5,930	5,930
General administration services:					
Data processing services	1,364,752	-	-	-	1,364,752
Other general administration	6,808,829	-	-	(18,307)	6,790,522
Plant services	17,834,466	-	-	20	17,834,486
Transfers of indirect costs	(308,291)	-	-	308,291	-
Capital Outlay	2,398,382	24,295,854	16,183,041	800,952	43,678,229
Intergovernmental Transfers	2,038,651	-	-	-	2,038,651
Debt Service:					
Interest	-	-	-	5,953,475	5,953,475
Principal	-	-	-	3,523,792	3,523,792
Issuance costs	-	499,500	-	112,500	612,000
Total Expenditures	<u>165,308,650</u>	<u>24,795,354</u>	<u>16,183,041</u>	<u>19,237,988</u>	<u>225,525,033</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,697,469</u>	<u>(24,723,255)</u>	<u>(13,420,198)</u>	<u>(1,051,865)</u>	<u>(31,497,849)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	17,000,000	17,023,942	2,370,824	36,394,766
Interfund transfers out	(2,370,824)	(17,023,942)	(17,000,000)	-	(36,394,766)
Proceeds from issuance of bonds	-	60,000,000	-	-	60,000,000
Premiums from issuance of debt	-	157,500	-	3,465,380	3,622,880
Total Other Financing Sources and Uses	<u>(2,370,824)</u>	<u>60,133,558</u>	<u>23,942</u>	<u>5,836,204</u>	<u>63,622,880</u>
Net Change in Fund Balances	5,326,645	35,410,303	(13,396,256)	4,784,339	32,125,031
Fund Balances, July 1, 2012	<u>58,542,725</u>	<u>6,133,581</u>	<u>66,979,626</u>	<u>34,227,141</u>	<u>165,883,073</u>
Fund Balances, June 30, 2013	<u>\$ 63,869,370</u>	<u>\$ 41,543,884</u>	<u>\$ 53,583,370</u>	<u>\$ 39,011,480</u>	<u>\$ 198,008,104</u>

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, 2013*

Total net change in fund balances - governmental funds \$ 32,125,031

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	40,104,791	
Depreciation expense	<u>(11,309,027)</u>	
Net		28,795,764

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:

(248,920)

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as an increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, including premiums were:

(63,622,880)

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

3,523,792

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The debt issue costs amortized for the period are:

Issue costs incurred during the period	612,000	
Issue costs amortized during the period	<u>(85,370)</u>	
Net		526,630

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:

433,190

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:

(339,551)

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:

(198,193)

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

938,099

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

(1,772,454)

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

138,450

Change in net position of governmental activities \$ 298,958

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Net Position - Fiduciary Funds
June 30, 2013

	Agency Funds			Totals
	Student Body Funds	IRC Section 125 Fund	Debt Service Fund for Special Tax Bonds	
Assets				
Cash	\$ 631,086	\$ 40,000	\$ 25,695,188	\$ 26,366,274
Investments	-	-	14,381,980	14,381,980
Inventories	29,157	-	-	29,157
Total Assets	\$ 660,243	\$ 40,000	\$ 40,077,168	\$ 40,777,411
Liabilities				
Due to student groups	\$ 643,234	\$ -	\$ -	\$ 643,234
Accounts payable	17,009	-	-	17,009
Due to employees	-	40,000	-	40,000
Due to bondholders	-	-	40,077,168	40,077,168
Total Liabilities	\$ 660,243	\$ 40,000	\$ 40,077,168	\$ 40,777,411

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of Tustin Unified School District and its component units, legally separate organizations for which the District is financially accountable. These component units are so intertwined with the District that they are, in substance, the same as the District and, therefore, are blended and reported as if they were part of the District. The District Board of Education also serves as the governing board for the Tustin USD Financing Corporation and Community Facilities Districts. Although the board members of the component units are appointed by the District Board, the component units exist solely to finance the acquisition and construction of equipment and facilities for the District.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because:</u>	<u>Separate Financial Statements</u>
Tustin USD Financing Corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated June 1, 2001.	Board of Education composes board of Financing Corporation	Not prepared.
Community Facilities Districts (CFD): The District has entered into various agreements with developers to establish CFDs. The purpose of the agreements is to provide for the collection of special taxes to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs.	Board of Education composes board of CFD	Not prepared.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - 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 an Adult Education Fund, a Deferred Maintenance Fund, and a Special Reserve Fund for Other Than Capital Outlay Projects. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the Adult Education Fund and the Deferred Maintenance Fund do not currently meet the definition of special revenue funds as they are no longer primarily composed of restricted or committed revenue sources. In addition, the Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

Special Revenue Funds:

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

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

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

Capital Projects Funds:

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

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

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.

Debt Service Fund:

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

Fiduciary Funds

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

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

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

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for, and the repayment of, Community Facility District bonds, interest and related costs.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. 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.

C. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund in the required supplementary information section.

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

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.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2013, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments". Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

2. 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.

3. Inventories

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

4. Capital Assets

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

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

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

5. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick 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.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Position (continued)

6. 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.

F. Use of Estimates

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements

During the 2012-13 fiscal year, the following GASB Pronouncements became effective:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*:

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*: The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements (continued)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*: The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*: This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2013 are reported at fair value and consisted of the following:

	<u>Governmental Activities/Funds</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in county treasury	\$ 194,260,768	\$ 25,695,188
Total Pooled Funds	<u>194,260,768</u>	<u>25,695,188</u>
Deposits:		
Cash on hand and in banks	645,181	631,086
Cash in revolving fund	<u>150,000</u>	<u>40,000</u>
Total Deposits	<u>795,181</u>	<u>671,086</u>
Total Cash	<u>\$ 195,055,949</u>	<u>\$ 26,366,274</u>
Investments:		
US Bank money market funds	\$ 6,669,272	5,174,220
US Bank insurance policy	-	2,847,038
Union Bank money market funds	<u>-</u>	<u>6,360,722</u>
Total Investments	<u>\$ 6,669,272</u>	<u>\$ 14,381,980</u>

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2013, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

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, 2013, \$1,289,701 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, 2013 consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank:			
U.S. Treasury Money Market Funds	\$ 11,843,492	\$ 11,843,492	\$ -
Insurance Policy	2,847,038	-	2,847,038
Union Bank Money Market Funds	6,360,722	6,360,722	-
Total investments	<u>\$ 21,051,252</u>	<u>\$ 18,204,214</u>	<u>\$ 2,847,038</u>

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2013, 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, 2013, the District had the following investments that represents more than five percent of the District's net investments.

US Bank Money Market Fund	56%
US Bank Insurance Policy	14%
Union Bank Money Market Funds	30%

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	\$ 3,040,599	\$ -	\$ -	\$ 145,773	\$ 3,186,372
Food service	-	-	-	1,611,112	1,611,112
State Government:					
Lottery	2,053,023	-	-	-	2,053,023
Categorical aid programs	8,080,913	-	13,622	-	8,094,535
Local:					
Interest	21,637	4,869	49	4,242	30,797
Miscellaneous	1,791,397	11,294	-	-	1,802,691
Total	<u>\$ 14,987,569</u>	<u>\$ 16,163</u>	<u>\$ 13,671</u>	<u>\$ 1,761,127</u>	<u>\$ 16,778,530</u>

NOTE 4 - INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2013 consisted of the following:

	Due From Other Funds			Total
	Building Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 473	\$ 2,379,047	\$ 2,379,520
Building Fund	5,583	-	-	5,583
Non-Major Governmental Funds	361,733	-	-	361,733
Total	<u>\$ 367,316</u>	<u>\$ 473</u>	<u>\$ 2,379,047</u>	<u>\$ 2,746,836</u>
General Fund due to Cafeteria Fund to correct UI				6,415
General Fund due to Child Development Fund to correct UI				1,809
General Fund due to Building Fund to correct UI				473
General Fund due to Special Reserve Fund for Capital Outlay Projects for special reserve transfer				1,815,285
General Fund due to Special Reserve Fund for Capital Outlay Projects for Adult Education Fund transfer				555,538
Building Fund due to General Fund for benefits				5,583
Cafeteria Fund due to General Fund for indirect costs, health and welfare and other operating costs				311,960
Child Development Fund due to General Fund for salaries and benefits, tax liability, indirect costs and other operating costs				49,773
Total				<u>\$ 2,746,836</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 4 - INTERFUND TRANSACTIONS (continued)

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2013 consisted of the following:

	Interfund Transfer in			Total
	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 2,370,824	\$ 2,370,824
Building Fund	-	17,023,942	-	17,023,942
Non-Major Governmental Funds	17,000,000	-	-	17,000,000
Total	<u>\$ 17,000,000</u>	<u>\$ 17,023,942</u>	<u>\$ 2,370,824</u>	<u>\$ 36,394,766</u>

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for redevelopment fees	\$ 1,815,286
Adult Education Fund transfer to Special Reserve Fund for Capital Outlay Projects for fund balance transfer	555,538
County School Facilities Fund transfer to Building Fund for loan to cover expenses until bond proceeds received	17,000,000
Building Fund transfer to County School Facilities Fund to repay the transfer with interest	17,023,942
Total	<u>\$ 36,394,766</u>

During the 2012-13 fiscal year the District made interfund transfers of \$2,671,666 from the General Fund to the Adult Education Fund and the Deferred Maintenance Fund. As described in Note 1.B. and in accordance with GASB Statement No. 54, the Adult Education Fund and Deferred Maintenance Fund are reported within the General fund in these financial statements, therefore, all interfund activity has been removed from the fund financial statements.

NOTE 5 - FUND BALANCES

Purpose

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.

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 5 – FUND BALANCES (continued)

At June 30, 2013, fund balances of the District’s governmental funds were classified as follows:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	287,406	-	-	63,660	351,066
Total Nonspendable	437,406	-	-	63,660	501,066
Restricted:					
Categorical programs	9,538,801	-	-	-	9,538,801
Child development programs	-	-	-	464,396	464,396
Food service program	-	-	-	4,624,889	4,624,889
Capital projects	-	41,543,884	53,583,370	20,432,171	115,559,425
Debt service	-	-	-	6,315,085	6,315,085
Workers' compensation claims	-	-	-	7,111,279	7,111,279
Total Restricted	9,538,801	41,543,884	53,583,370	38,947,820	143,613,875
Assigned:					
Adult education program	49,614	-	-	-	49,614
Deferred maintenance program	3,839,000	-	-	-	3,839,000
Other assignments	3,967,732	-	-	-	3,967,732
Benefit accounts	120,000	-	-	-	120,000
Accrued vacation liability	1,236,882	-	-	-	1,236,882
Tier III categorical flex reserves	12,471,565	-	-	-	12,471,565
One time employee agreements	1,873,760	-	-	-	1,873,760
Facilities maintenance reserves	758,298	-	-	-	758,298
ERRP reserves	638,968	-	-	-	638,968
Technology refresh reserves	500,000	-	-	-	500,000
School site carryover	308,740	-	-	-	308,740
Total Assigned	25,764,559	-	-	-	25,764,559
Unassigned:					
Reserve for economic uncertainties	28,128,604	-	-	-	28,128,604
Total Unassigned	28,128,604	-	-	-	28,128,604
Total	\$ 63,869,370	\$ 41,543,884	\$ 53,583,370	\$ 39,011,480	\$198,008,104

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance, July 1, 2012	Additions	Retirements	Balance, June 30, 2013
Capital assets not being depreciated:				
Land	\$ 176,147,527	\$ -	\$ -	\$ 176,147,527
Construction in progress	45,307,824	13,023,506	44,421,955	13,909,375
Total capital assets not being depreciated	<u>221,455,351</u>	<u>13,023,506</u>	<u>44,421,955</u>	<u>190,056,902</u>
Capital assets being depreciated:				
Improvement of sites	24,680,566	6,360,717	-	31,041,283
Buildings	341,100,663	63,600,966	762,000	403,939,629
Equipment	14,835,937	1,541,557	32,880	16,344,614
Total capital assets being depreciated	<u>380,617,166</u>	<u>71,503,240</u>	<u>794,880</u>	<u>451,325,526</u>
Accumulated depreciation for:				
Improvement of sites	(6,361,411)	(1,249,894)	-	(7,611,305)
Buildings	(69,038,383)	(9,035,166)	(513,080)	(77,560,469)
Equipment	(9,315,928)	(1,023,967)	(32,880)	(10,307,015)
Total accumulated depreciation	<u>(84,715,722)</u>	<u>(11,309,027)</u>	<u>(545,960)</u>	<u>(95,478,789)</u>
Total capital assets being depreciated, net	<u>295,901,444</u>	<u>60,194,213</u>	<u>248,920</u>	<u>355,846,737</u>
Governmental activity capital assets, net	<u>\$ 517,356,795</u>	<u>\$ 73,217,719</u>	<u>\$ 44,670,875</u>	<u>\$ 545,903,639</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2013 were as follows:

	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	\$ 106,310,577	\$ 60,000,000	\$ 3,523,792	\$ 162,786,785	\$ 2,332,140
Accreted Interest	4,844,450	1,534,402	1,336,209	5,042,643	1,477,859
Unamortized Issuance Premium	7,342,838	3,622,880	433,190	10,532,528	549,939
Total - GO Bonds	<u>118,497,865</u>	<u>65,157,282</u>	<u>5,293,191</u>	<u>178,361,956</u>	<u>4,359,938</u>
Workers' Compensation Claims	6,386,000	-	938,099	5,447,901	-
Compensated Absences	1,261,885	-	138,450	1,123,435	-
Other Postemployment Benefits	3,104,311	1,772,454	-	4,876,765	-
Totals	<u>\$ 129,250,061</u>	<u>\$ 66,929,736</u>	<u>\$ 6,369,740</u>	<u>\$ 189,810,057</u>	<u>\$ 4,359,938</u>

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

A. General Obligation Bonds

Measure G

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

Measure L

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

Build America Bonds

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

Measure S

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

Refunding

The District issued \$8,604,947 of Refunding Bonds on June 15, 2006. Of the net proceeds, \$8.6 million was placed into an escrow fund for the purpose of paying off a portion of the District’s outstanding Series A bonds in the amount of \$8,160,000. The remaining outstanding Series A bonds are not callable, and will remain outstanding until their scheduled maturity. As a result of the refunding, the District expects to realize over \$900,000 in net savings over the life of the bonds. At June 30, 2013, the principal balance outstanding on the defeased debt was \$8,160,000.

Below is a schedule of bonds issued as of June 30, 2013.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013	
Measure G:									
2002A	7/13/2003	2028	2.00% - 5.12%	\$ 15,000,000	\$ 380,000	\$ -	\$ 380,000	\$ -	
2002B	6/15/2006	2031	4.25% - 5.12%	17,350,000	10,195,000	-	350,000	9,845,000	
2002C	5/1/2008	2032	4.00% - 5.00%	22,649,972	19,946,140	-	576,142	19,369,998	
2002D	3/10/2010	2034	6.00% - 6.90%	24,998,556	24,998,556	-	-	24,998,556	
Measure L:									
2008A	3/30/2010	2034	3.00% - 6.589%	25,000,000	24,000,000	-	1,275,000	22,725,000	
2008B	6/9/2011	2037	2.00% - 5.00%	25,000,000	25,000,000	-	-	25,000,000	
2008C	5/8/2013	2042	2.00% - 4.00%	25,000,000	-	25,000,000	-	25,000,000	
Measure S:									
2012A	3/14/2013	2037	2.0% - 5.0%	35,000,000	-	35,000,000	-	35,000,000	
Refunding Bonds:									
Refunding	6/15/2006	2014	3.82% - 4.34%	8,604,947	1,790,881	-	942,650	848,231	
					<u>\$ 198,603,475</u>	<u>\$ 106,310,577</u>	<u>\$ 60,000,000</u>	<u>\$ 3,523,792</u>	<u>\$ 162,786,785</u>
Accreted Interest:									
					Refunding	\$ 1,896,861	\$ 159,672	\$ 1,022,350	1,034,183
					2002C	1,179,520	357,310	313,859	1,222,971
					2002D	1,768,069	1,017,420	-	2,785,489
					<u>\$ 4,844,450</u>	<u>\$ 1,534,402</u>	<u>\$ 1,336,209</u>	<u>\$ 5,042,643</u>	

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

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

Fiscal Year	Principal	Interest	Total
2013-14	\$ 2,332,140	\$ 7,874,693	\$ 10,206,833
2014-15	5,380,857	7,252,052	12,632,909
2015-16	5,410,496	7,369,225	12,779,721
2016-17	4,813,038	7,318,983	12,132,021
2017-18	5,176,211	7,248,421	12,424,632
2018-23	26,123,776	35,234,342	61,358,118
2023-28	34,112,610	31,522,503	65,635,113
2028-33	41,752,657	16,383,550	58,136,207
2033-38	30,895,000	4,604,240	35,499,240
2038-43	6,790,000	700,000	7,490,000
Total	<u>\$ 162,786,785</u>	<u>\$ 125,508,009</u>	<u>\$ 288,294,794</u>

B. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$249,352,675 as of June 30, 2013 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.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 8 - JOINT VENTURES (continued)

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 was not available. Condensed current financial information of the ASCIP JPA is shown below:

	ASCIP June 30, 2012 (Audited)
Total Assets	\$ 272,622,432
Total Liabilities	148,239,028
Net Assets	<u>\$ 124,383,404</u>
Total Revenues	\$ 188,444,031
Total Expenditures	<u>176,093,572</u>
Change in Net Assets	<u>\$ 12,350,459</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

As of June 30, 2013, the District had commitments with respect to unfinished capital projects of approximately \$18.4 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, 2013.

D. Piggy-Back Contract

In June 2013, the District purchased computer equipment through use of a contract awarded by Western States Contracting Alliance with Lenovo, Inc. through authorized vendor CDW Government, LLC, which specifically provided that other governmental entities may purchase under its terms and conditions, also known as a "piggy-back" contract. The agreement was for a total amount not to exceed \$6.7 million to be paid from Measure "S" funds.

After examination of the contract, the Orange County Department of Education has determined that the agreement does not qualify as a valid "piggy-back" contract, and is refusing to release the funds, although the District has already accepted receipt of the equipment. The District is currently in negotiations with all parties to resolve the matter. At the date of the audit, the possibility of a negative outcome cannot be reasonably estimated, therefore, no liability has been established.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

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, 2013, 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 2012-13, the District was self-funded for workers compensation for the first \$750,000 of each loss, with excess coverage provided through a commercial excess insurance policy up to a maximum limit of \$25 million.

Employee Medical Benefits

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

Claims Liability

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

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2011 to June 30, 2013:

	Workers' Compensation
Liability Balance, July 1, 2011	\$ 6,386,000
Claims and changes in estimates	(5,754)
Claims payments	5,754
Liability Balance, June 30, 2012	6,386,000
Claims and changes in estimates	(932,169)
Claims payments	(5,930)
Liability Balance, June 30, 2013	\$ 5,447,901
Assets available to pay claims at June 30, 2013	\$ 7,111,279

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2012-13 was 11.417%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2012-13	\$ 2,822,696	100%
2011-12	\$ 2,610,329	100%
2010-11	\$ 2,528,304	100%

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2012-13	\$ 6,755,914	100%
2011-12	\$ 6,444,394	100%
2010-11	\$ 6,097,120	100%

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$3.5 million to STRS (4.267% of salaries subject to STRS in 2012-13).

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees receiving benefits*	103
Active plan members*	1,402
Total	<u>1,505</u>

* As of March 1, 2013 actuarial valuation

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

	<u>Certificated *</u>	<u>Classified *</u>
Benefit types provided	Medical and dental	Medical and dental
Duration of benefits	To age 65	To age 65
Required service	8 years	5 years
Minimum age	50	50
Dependent coverage	No	No
District contribution %	100%	100%

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

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2012-13, the District contributed \$1,034,242.

Annual OPEB Cost and Net OPEB Obligation

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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

Annual Required Contribution (ARC)	\$ 2,788,980
Interest on net OPEB obligation	155,216
Adjustment to ARC	<u>(137,500)</u>
Annual OPEB cost	2,806,696
Contributions made	<u>(1,034,242)</u>
Increase (decrease) in net OPEB obligation	1,772,454
Net OPEB obligation - July 1, 2012	<u>3,104,311</u>
Net OPEB obligation - June 30, 2013	<u>\$ 4,876,765</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-13 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	\$ 2,204,574	59.5%	\$ 2,040,400
2012	\$ 2,206,362	51.9%	\$ 3,104,311
2013	\$ 2,806,696	37.1%	\$ 4,876,765

Funded Status and Funding Progress – OPEB Plans

As of March 1, 2013, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$15.3 million and the unfunded actuarial accrued liability (UAAL) was \$15.3 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions (continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	March 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment rate of return	5%
Inflation	3%
Long-term healthcare cost trend rates	4%

NOTE 13 – FUTURE GASB PRONOUNCEMENTS

The following statements issued by the Governmental Accounting Standards Board (GASB) will become effective in future years and are expected to have a significant impact on the District's financial reporting:

A. Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

This Statement will become effective in 2013-14.

B. Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 13 – FUTURE GASB PRONOUNCEMENTS (continued)

B. Statement No. 68 (continued)

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

This Statement will become effective in 2014-15.

Required Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 121,581,795	\$ 122,179,246	\$ 122,179,244	\$ (2)
Federal Sources	10,156,384	10,660,480	9,802,151	(858,329)
Other State Sources	34,076,523	36,526,229	36,483,366	(42,863)
Other Local Sources	4,632,155	7,004,867	4,480,429	(2,524,438)
Total Revenues	170,446,857	176,370,822	172,945,190	(3,425,632)
Expenditures				
Current:				
Certificated Salaries	84,361,097	82,882,622	82,426,623	455,999
Classified Salaries	27,966,157	26,804,730	26,671,404	133,326
Employee Benefits	35,869,556	33,330,554	30,714,359	2,616,195
Books and Supplies	8,436,595	6,270,158	4,850,812	1,419,346
Services and Other Operating Expenditures	18,220,098	16,457,703	16,101,224	356,479
Transfers of indirect cost	(357,992)	(308,291)	(308,291)	-
Capital Outlay	664,750	617,149	617,142	7
Intergovernmental Transfers	2,298,665	2,038,652	2,038,651	1
Total Expenditures	177,458,926	168,093,277	163,111,924	4,981,353
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,012,069)	8,277,545	9,833,266	1,555,721
Other Financing Sources and Uses				
Interfund Transfers Out	(2,798,828)	(4,486,952)	(4,486,952)	-
Total Other Financing Sources and Uses	(2,798,828)	(4,486,952)	(4,486,952)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(9,810,897)	3,790,593	5,346,314	1,555,721
Fund Balances, July 1, 2012	50,666,709	50,666,709	50,666,709	-
Fund Balances, June 30, 2013	\$ 40,855,812	\$ 54,457,302	\$ 56,013,023	\$ 1,555,721

* 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 Adult Education Fund, Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
February 1, 2009	\$ -	\$ 15,007,855	\$ 15,007,855	0.0%	\$ 109,595,152	14%
April 14, 2011	\$ -	\$ 15,183,435	\$ 15,183,435	0.0%	\$ 103,182,636	15%
March 1, 2013	\$ -	\$ 15,294,022	\$ 15,294,022	0.0%	\$ 94,144,277	16%

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2013, the District incurred no excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules.

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Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2013

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, 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 2016
James Laird	Vice President	November 2016
Francine Scinto	Clerk	November 2016
Jonathan Abelow	Member	November 2014
Lynn Davis	Member	November 2014

DISTRICT ADMINISTRATORS

Gregory A. Franklin, Ed.D.,
Superintendent

Julie Mitchell, Ed.D.,
Chief Personnel Officer

Kathie Nielsen,
Chief Academic Officer

Anthony Soria,
Chief Financial Officer

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

Crystal Turner,
Assistant Superintendent, Administrative Services

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2013

	Second Period Report (Certificate No. E9069BA0)	Annual Report (Certificate No. B2E13E2C)
Elementary:		
Kindergarten	1,547	1,551
Grades 1 through 3	5,218	5,227
Grades 4 through 6	5,320	5,320
Grades 7 and 8	3,446	3,448
Home and hospital	7	7
Special education	420	423
Extended year program	14	14
	<hr/>	<hr/>
Total Elementary	15,972	15,990
Secondary:		
Grades 9 through 12, regular classes	6,748	6,729
Continuation education	188	183
Home and hospital	5	7
Special education	214	215
Extended year program	7	7
	<hr/>	<hr/>
Total Secondary	7,162	7,141
	<hr/>	<hr/>
Total Average Daily Attendance	23,134	23,131

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2013

Grade Level	1982-83 Minutes		1986-87 Minutes		2012-13 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	31,680	30,800	36,000	35,000	36,540	180	Complied
Grade 1	45,520	44,256	50,400	49,000	50,974	180	Complied
Grade 2	45,520	44,256	50,400	49,000	50,974	180	Complied
Grade 3	45,520	44,256	50,400	49,000	50,974	180	Complied
Grade 4	53,790	52,296	54,000	52,500	54,405	180	Complied
Grade 5	53,790	52,296	54,000	52,500	54,405	180	Complied
Grade 6	53,790	52,296	54,000	52,500	59,167	180	Complied
Grade 7	53,790	52,296	54,000	52,500	59,167	180	Complied
Grade 8	53,790	52,296	54,000	52,500	59,167	180	Complied
Grade 9	57,180	55,592	64,800	63,000	63,583	180	Complied
Grade 10	57,180	55,592	64,800	63,000	63,583	180	Complied
Grade 11	57,180	55,592	64,800	63,000	63,583	180	Complied
Grade 12	57,180	55,592	64,800	63,000	63,583	180	Complied

* Amounts reduced as permitted by Education Code Section 46201.2(a).

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2013

General Fund	(Budget) 2014 ³	2013	2012	2011
Revenues and other financing sources	\$ 181,039,687	\$ 172,945,190	\$ 170,406,345	\$ 167,735,202
Expenditures	183,304,703	163,111,924	158,684,611	154,526,455
Other uses and transfers out	3,848,828	4,486,952	5,714,530	1,400,896
Total outgo	187,153,531	167,598,876	164,399,141	155,927,351
Change in fund balance (deficit)	(6,113,844)	5,346,314	6,007,204	11,807,851
Ending fund balance	<u>\$ 49,899,179</u>	<u>\$ 56,013,023</u>	<u>\$ 50,666,709</u>	<u>\$ 44,659,505</u>
Available reserves ¹	<u>\$ 16,065,973</u>	<u>\$ 28,128,604</u>	<u>\$ 17,535,378</u>	<u>\$ 20,372,464</u>
Available reserves as a percentage of total outgo	<u>8.6%</u>	<u>16.8%</u>	<u>10.7%</u>	<u>13.1%</u>
Total long-term debt	<u>\$ 185,450,119</u>	<u>\$ 189,810,057</u>	<u>\$ 129,250,061</u>	<u>\$ 136,576,205</u>
Average daily attendance at P-2 ²	<u>23,250</u>	<u>23,134</u>	<u>22,890</u>	<u>22,362</u>

The General Fund balance has increased by approximately \$11.4 million over the past two years. The fiscal year 2013-14 adopted budget projects a decrease of approximately \$6.1 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past three years, but anticipates incurring an operating deficit during the 2013-14 fiscal year. Long-term debt has increased by \$53.2 million over the past two years.

Average daily attendance has increased by 772 over the past two years. The District projects an increase of 116 ADA in 2013-14.

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

² Excludes Adult Education ADA and ROC/P ADA.

³ Budget as of September 2013

⁴ 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 Adult Education Fund, 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 Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

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	\$ 44,973	
School Breakfast Program - Especially Needy	10.553	13526	1,293,193	
National School Lunch Program	10.555	13523	3,252,131	
USDA Donated Foods	10.555	N/A	<u>332,838</u>	
Total Child Nutrition Cluster				\$ 4,923,135
Child Care Food Program Cluster:				
CCFP Claims Centers and Family Day Care Homes	10.558	13394	396,962	
CCFP Cash in Lieu of Commodities	10.558	13389	<u>31,577</u>	
Total Child Care Food Program Cluster				<u>428,539</u>
Total U.S. Department of Agriculture				<u>5,351,674</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		1,893,097
Title II, Part A, Teacher Quality Local	84.367	14341		342,809
Title III, Limited English Proficiency	84.365	14346		623,697
Readiness and Emergency Management for Schools	84.186	14347		56,990
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster (IDEA)				
Local Assistance Entitlement	84.027	13379	3,339,088	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	77,245	
IDEA Preschool Staff Development, Part B, Section 619	84.173A	13431	1,029	
Preschool Local Entitlement, Part B	84.027A	13682	325,001	
IDEA Early Intervention Grant, Part C	84.181	23761	61,210	
IDEA State Improvement Grant, Improving Special Ed Systems	84.323	14913	7,777	
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	<u>212,118</u>	
Total Special Education (IDEA) Cluster				4,023,468
Education Jobs Fund	84.410	25152		2,747,571
Carl Perkins Act - Secondary	84.048	14894		<u>114,519</u>
Total U.S. Department of Education				<u>9,802,151</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	561,148	
Medi-Cal Administrative Activities (MAA)	93.788	10060	<u>11,813</u>	
Total Medicaid Cluster				572,961
Child Care and Development Block Grant	93.575	Unknown		<u>430,679</u>
Total U.S. Department of Health & Human Services				<u>1,003,640</u>
Total Expenditures of Federal Awards				<u>\$ 16,157,465</u>

TUSTIN UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2013*

	<u>Capital Projects Fund for Blended Component Units</u>
June 30, 2013, annual financial and budget report (SACS) fund balances	\$ 8,441,495
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Removal of CFD debt service activity	<u>(1,773,519)</u>
Net adjustments and reclassifications	<u>(1,773,519)</u>
June 30, 2013, audited financial statement fund balances	<u><u>\$ 6,667,976</u></u>

TUSTIN UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2013

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code Section 46201.2(a).

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

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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, 2013, 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 11, 2013.

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.

We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

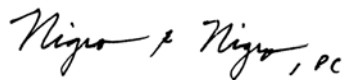
As part of obtaining reasonable assurance about whether Tustin Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

Tustin Unified School District's Response to Finding

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

Purpose of this Report

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



December 11, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE**

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 Circular A-133 *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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2013.

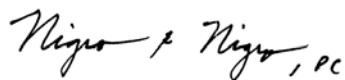
Report on Internal Control Over Compliance

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



December 11, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Tustin Unified School District
Tustin, California

Report on Compliance for State Programs

We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13, published by the Education Audit Appeals Panel, for the year ended June 30, 2013. Tustin Unified School District's state programs are identified below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tustin Unified School District's State programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Tustin Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Table with 3 columns: Description, Procedures in Audit Guide, Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time (School Districts, County Offices of Education), Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, and Early Retirement Incentive.

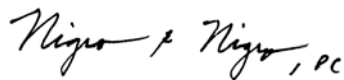
Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable

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

Opinion on Compliance with State Programs

In our opinion, Tustin Unified School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2013.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.



December 11, 2013

Findings and Questioned Costs

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TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>84.027, 84.173</u> <u>Special Education Cluster (IDEA)</u>	
<u>84.410</u> <u>Education Jobs Fund</u>	
<u>93.778, 93.788</u> <u>Medicaid Cluster</u>	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 484,724</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

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

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING 2013-1: BANK ACCOUNTS (30000)

At two ASB locations, we noted that bank reconciliations are not being reviewed or performed correctly. At Columbus Middle we noted that the bank cash balance was being recorded incorrectly on the reconciliation. At Hewes Middle we identified that the beginning bank balance and cleared items were not included in the reconciliation.

We also identified ASB bank accounts at Beckman and Tustin High schools that have outstanding checks greater than six months old that were included in the bank reconciliation.

Recommendation: The District should have an employee assigned to regularly review bank reconciliations from ASB accounts to ensure the sites are accurately reconciling balances. Reconciling items older than six months should be investigated and removed when appropriate.

District Response: Business Services staff met with ASB clerks and site administrators and reviewed processes and procedures to ensure accurate bank reconciliations. Both Columbus Tustin and Hewes Middle Schools have begun using the template in the FCMAT ASB Accounting Manual to reconcile bank statements and staff is currently developing a template for monthly financial statements.

With increased monitoring of ASB accounts, sites are notified when checks appear on the reconciliation that are over four months old. If the check does not clear within six months, procedures dictate that the check should be voided and removed from the outstanding checklist on the bank reconciliation.

Additionally, the District is contracting with our auditing firm to conduct ASB workshops for all employees involved in ASB accounting. The workshops are scheduled for Spring 2014.

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

There were no federal award findings or questioned costs in 2012-13.

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

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 2012-13.

TUSTIN UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2013

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2012-1: Bank Accounts</i>	<p>In reviewing the District's bank accounts and reconciliations, the District has not been reconciling the Worker's Compensation or Summer Recreation Program bank accounts on a monthly basis.</p> <p>At several ASB locations, bank reconciliations are not being reviewed, performed correctly and/or completed in a timely manner. Currie Middle, Pioneer Middle and Hewes Intermediate do not sign and date reconciliations. CE Utt Middle, Columbus Middle and Beckman High School did not complete bank reconciliations within 30 days of the bank statement date. CE Utt Middle and Beckman High, Foothill High and Tustin High are reconciling statements containing uncleared checks from prior years.</p> <p>Failure to timely and correctly perform bank reconciliations could permit bank errors or unauthorized activity to occur and go undetected and misstate fiduciary account balances.</p>	30000	<p>The District should have an employee assigned to perform bank reconciliations in a timely manner upon the receipt of the bank statement. A separate employee should review the bank reconciliation to ensure accuracy. The Worker's Compensation account should be reconciled to the bank statement and not only the imprest balance.</p> <p>ASB accounts should be reconciled in a timely manner and reviewed by an advisor. Reconciling items older than six months should be investigated and removed when appropriate.</p>	Partially implemented, however, see Finding 2013-1.

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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, 2013, 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 11, 2013 on the financial statements of Tustin Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: During our testing of cash disbursements, we noted that several disbursements tested lacked evidence of receipt of goods or services. Without such evidence, it is possible to pay for goods or services that have not been received or received in the wrong quantity or damaged.

Recommendation: We recommend that the sites document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing “ok to pay” or “received” and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.

Observation: In our test of cash disbursements, we noted that disbursements selected in our sample were not approved by the District representative, the ASB advisor, and/or the student representative until after the expenditure had already been incurred. Further, at **Tustin High** we noted that eleven of the disbursements selected in our sample were not approved by the ASB advisor, and at **Hewes** one disbursement was not approved by the Principal.

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

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: In our test of expenditures, some were found to be missing supporting documentation such as an invoice or receipt. Issuing payment for expenditures without proper approvals and supporting documentation can provide the opportunity for the misappropriation of student funds.

Recommendation: We advise that the District follow-up on the noted exceptions to ensure that the disbursements are not fraudulent transactions. In addition, we recommend that the site require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

Observation: During our testing we noted nine clubs at **Beckman High** and one at **Pioneer Middle** that carry negative balances. The Governing Board allows ASBs to operate in schools to provide an opportunity for students to learn how an organization's finances operate. Clubs with negative balance are not being managed effectively, which increases the risk for fraud to occur, and can be used to disguise fraudulent activity. Additionally, clubs with negative balances are encroaching on positive account balances from other clubs.

Recommendation: We recommend that the bookkeeper follow up with the clubs to ensure that a plan is in place to remedy the overdrafted account before the end of the fiscal year.

Observation: During our testing at **Beckman High** and **Hewes Middle** we noted student funds were used to make donations. Donations to charitable organizations from funds deposited in ASB club accounts are considered a gift of public funds and are generally not allowable.

Recommendation: If student groups wish to raise funds for charitable purposes they must clearly identify in their solicitation that they are raising funds to donate to a particular charity. All donations should be in the form of checks made payable to the charity and should be delivered directly to the charity so that funds are not deposited into the ASB account. If it is not possible to have the checks made directly to the outside organization, the ASB bookkeeper should open a trust account within the ASB specifically for these donations (with board approval), then write a check to the organization and close the account when the fundraiser is over. It is crucial to ensure that the District's governing board approves this fundraiser and that all paperwork associated with the fundraiser clearly documents that the only funds donated to the outside organization were those raised for that specific purpose. No funds from other clubs or accounts should be donated to outside organizations.

Observation: During our test of cash receipts at Tustin High, it was noted that a charge for vocabulary books is being collected in a vocabulary fund account. Fees charged to students for the purchase of textbooks or workbooks are prohibited by the State Board of Education. The California Constitution mandates that public education be provided to students free of charge, unless a charge is specifically authorized by law for a particular program or activity. We also noted at Tustin and Foothill High that fees for exams were being collected and expended out of the student body account.

Recommendation: We recommend that the site discontinue charging fees for vocabulary books immediately and return the funds collected in the account to the students charged. The District Office should allow the Student Council to deposit voluntary fees for exams into the District's clearing account so as to avoid commingling funds. We recommend that only ASB funds that will be used for appropriate ASB purposes be deposited into the ASB account.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

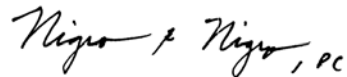
Observation: During our cash receipts testing we noted some deposits were not deposited in a timely manner. In some cases, deposits were made over two after receipts were collected.

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: During our test of cash receipts, we noted some transactions lacked a clear audit trail consisting of tally sheets, ticket logs, revenue potentials or pre-numbered receipts. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account.

Recommendation: We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

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

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

December 11, 2013