

**TUSTIN UNIFIED  
SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2014**



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*For the Fiscal Year Ended June 30, 2014*  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Tustin Unified School District  
Tustin, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District, as of and for the fiscal year ended June 30, 2014, 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 2013-14*. 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, 2014, 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.

**Emphasis of Matter**

As discussed in Note 1.G. to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board Statement No. 65, "Items Previously Reported as Assets and Liabilities". The adoption of this standard required retrospective application resulting in a \$2,347,808 reduction of previously reported net position at July 1, 2013. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, budgetary comparison information on page 40 and schedule of funding progress on page 41 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.

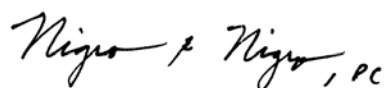
*Other Information*

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 1, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California  
December 1, 2014

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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This discussion and analysis of Tustin Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's net position decreased by roughly \$12.2 million or 2.2% over the course of the year.
- Overall government-wide revenues were \$210.4 million, and overall expenses were \$222.6 million.
- The total cost of basic programs was \$222.6 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$183.1 million.
- The District decreased its outstanding long-term debt \$1.2 million or 0.6%. This was primarily due to payments of principal on general obligation bonds.
- Average daily attendance (ADA) in grades K-12 increased by 125, or .5%.

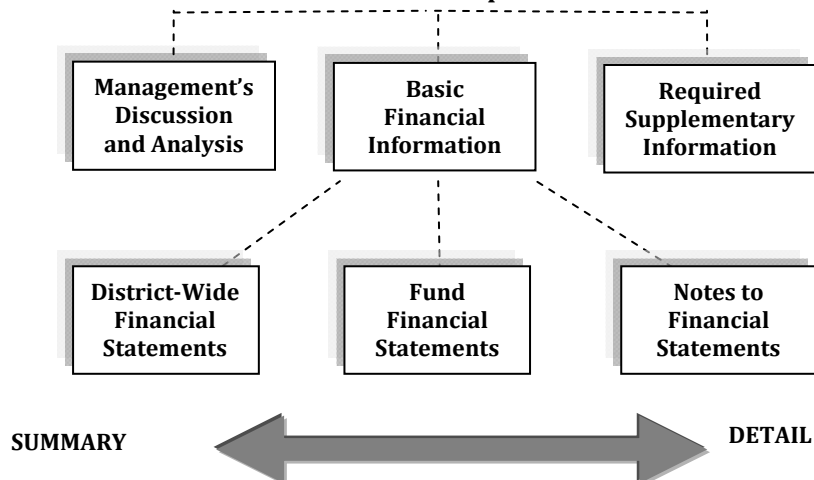
**OVERVIEW OF THE FINANCIAL STATEMENTS**

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, 2014*

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

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

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

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

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

## TUSTIN UNIFIED SCHOOL DISTRICT

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2014*

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### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

#### District-Wide Statements

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

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

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

#### Fund Financial Statements

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

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

The District has two kinds of funds:

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

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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

**Net Position.** The District's combined net position was lower on June 30, 2014, than it was the year before – decreasing 2.2% to \$542.0 million (See Table A-1).

**Table A-1**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2014</b>	<b>2013*</b>	
Current assets	\$ 196.3	\$ 219.1	\$ (22.8)
Capital assets	553.7	545.9	7.8
<b>Total assets</b>	<b>750.0</b>	<b>765.0</b>	<b>(15.0)</b>
Current liabilities	21.2	22.7	(1.5)
Long-term liabilities	186.8	188.1	(1.3)
<b>Total liabilities</b>	<b>208.0</b>	<b>210.8</b>	<b>(2.8)</b>
Net position			
Net investment in capital assets	403.6	422.5	(18.9)
Restricted	108.4	95.4	13.0
Unrestricted	30.0	36.3	(6.3)
<b>Total net position</b>	<b>\$ 542.0</b>	<b>\$ 554.2</b>	<b>\$ (12.2)</b>

\* As restated

**Changes in net position, governmental activities.** The District's total revenues increased 8.5% to \$210.4 million (See Table A-2). The increase is due primarily to federal and state aid.

The total cost of all programs and services increased 14.9% to \$222.6 million. The District's expenses are predominantly related to educating and caring for students, 75.6%. The purely administrative activities of the District accounted for just 3.8% of total costs. A significant contributor to the increase in costs was in connection with instruction and instruction related services.

**Table A-2**

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2014</b>	<b>2013</b>	
Total Revenues	\$ 210.4	\$ 194.0	\$ 16.4
Total Expenses	222.6	193.7	28.9
Increase (decrease) in net position	<b>\$ (12.2)</b>	<b>\$ 0.3</b>	<b>\$ (12.5)</b>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**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 \$177.4 million, which is below last year's ending fund balance of \$198.0 million. The primary cause of the decreased fund balance is capital expenditures in connection with District bond measures.

**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 \$3.0 million primarily to reflect federal and state budget actions
- Expenses – decreased about \$2.2 million as a result of District-wide budget actions

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about \$2.9 million, the actual results for the year show that revenues exceeded expenditures by roughly \$3.7 million. Actual revenues were \$5.0 million less than anticipated, but expenditures were \$5.8 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2014 that will be carried over into the 2014-15 budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2013-14 the District had invested \$20.3 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 was \$12.5 million.

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

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2014</b>	<b>2013</b>	
Land	\$ 176.1	\$ 176.1	\$ -
Improvement of sites	34.5	23.5	11.0
Buildings	327.0	326.4	0.6
Equipment	6.7	6.0	0.7
Construction in progress	9.4	13.9	(4.5)
<b>Total</b>	<b>\$ 553.7</b>	<b>\$ 545.9</b>	<b>\$ 7.8</b>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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

**Long-Term Debt**

At year-end the District had \$186.8 million in general obligation bonds, compensated absences, other postemployment benefits and workers' compensation claims – a decrease of 0.6% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	<b>Governmental Activities</b>		<b>Variance Increase (Decrease)</b>
	<b>(In millions)</b>		
	<b>2014</b>	<b>2013*</b>	
General obligation bonds	\$ 173.5	\$ 176.6	\$ (3.1)
Workers compensation claims	5.4	5.4	0.0
Compensated absences	1.2	1.1	0.1
Other postemployment benefits	6.7	4.9	1.8
<b>Total</b>	<b>\$ 186.8</b>	<b>\$ 188.0</b>	<b>\$ (1.2)</b>

\* As restated

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

**Budget Overview**

The Governor signed the *2014-15 Budget Act* on June 20, 2014. In late June, the Governor signed 17 budget-related bills into law. The 2014-15 budget package assumes total state spending of \$152.3 billion, an increase of 8.6 percent over revised totals for 2013-14. This consists of \$108 billion from the General Fund and the Education Protection Account created by Proposition 30 (2012), and \$44.3 billion from special funds. The budget package assumes spending from federal funds to be \$98 billion, an increase of 20.9 percent over 2013-14 revised levels, mainly due to increases in the health area of the budget. Bond spending is expected to decline 53 percent in 2014-15.

**Major Features of the 2014-15 Spending Plan**

Similar to the 2013-14 budget, the 2014-15 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be “triggered” under the budget plan.

**Fully Funds CalSTRS Pension Program**

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers.

**Proposition 98**

The budget plan includes large Proposition 98 funding increases for schools and community colleges. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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

**Spending Changes**

Funding for K-14 education increases significantly under the new budget package. In the sections that follow, we describe how the State is spending these funds.

**Deferral Payments**

***Pays Down \$5.2 Billion in Outstanding Deferrals***

The budget package pays down \$5.2 billion in outstanding deferrals (\$4.7 billion for schools and \$498 million for community colleges). Of the total paydown, \$1.4 billion is designated as 2012-13 spending, \$3.1 billion is designated as 2013-14 spending, and \$662 million is designated as 2014-15 spending. Under the budget plan, \$992 million in deferrals (\$897 million for schools and \$94 million for community colleges) would remain outstanding at the end of 2014-15.

***Eliminates Remaining Deferrals if Minimum Guarantee Exceeds Estimates***

The budget package pays down additional deferrals (potentially eliminating all outstanding deferrals) if subsequent estimates of the 2013-14 and 2014-15 minimum guarantees are higher than the administration's May 2015 estimates. Effectively, the budget plan earmarks the first \$992 million in potential additional 2013-14 and 2014-15 spending for deferral paydowns.

**Mandates**

***Pays Down \$450 Million in Outstanding Education Mandate Claims***

We estimate the State currently has a backlog of more than \$5 billion in unpaid claims for education mandates. The budget includes \$400 million to reduce the mandate backlog for schools. (Of this amount, \$287 million is 2014-15 Proposition 98 funding and \$113 million is from unspent prior-year fund.) Funds will be distributed to schools and community colleges on a per-student basis.

***Adds Several Mandates to School and Community College Block Grants***

The Commission on State Mandates recently approved seven new reimbursable education mandates. Six of these mandates apply to schools, two apply to community colleges, and one applies to both schools and community colleges. For schools, the budget adds to the block grant mandates related to (1) parental involvement procedures, (2) compliance activities associated with the *Williams v. California* case, (3) uniform complaint procedures, (4) developer fees, (5) charter school oversight, and (6) public contracts.

**Energy Grants**

***State Provides Second-Year Funding for Energy Projects***

Passed by 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. The 2014-15 budget provides \$345 million Proposition 98 General Fund for Proposition 39 school and community college energy programs. Specifically, the budget provides \$279 million for school grants, \$38 million for community colleges grants, and \$28 million for the revolving loan program for both schools and community colleges. (Estimates of Proposition 39 revenues are lower in 2014-15 compared to 2013-14, resulting in less provided for school and community college grants.) The budget also provides \$8 million non-Proposition 98 General Fund for Proposition 39 job-training programs administered by the California Conservation Corps (\$5 million) and the California Workforce Investment Board (\$3 million).

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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

**Chapter 751 Obligation**

***Makes Final \$410 Million Payment on Outstanding Proposition 98 Obligations From 2004-05 and 2005-06***

The 2014-15 budget makes a final \$410 million payment to retire the state's obligation set forth in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Chapter 751 required the state to provide additional annual school and community college payments until a total of \$2.8 billion had been provided. Of the amount provided in the budget package, \$316 million is for continued funding of the QEIA program (\$268 million for schools and \$48 million for community colleges) and \$94 million is to pay down a separate state obligation related to school facility repairs.

**K-12 Education**

The largest K-12 augmentation is for the second-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

**Operational Funding**

***Provides \$4.7 Billion for LCFF Implementation***

The budget plan includes \$4.7 billion in additional funding for the school district LCFF—resulting in per-pupil LCFF funding that is 12 percent higher than 2013-14 levels. The additional funding is sufficient to close 29 percent of the gap between districts' 2013-14 funding levels and their target funding rates. We estimate the 2014-15 funding level is approximately 80 percent of the full implementation cost. The budget also includes \$26 million for the LCFF for county offices of education (COEs). This increase is sufficient to bring all COEs up to their LCFF funding targets in 2014-15.

***Other Notable K-12 Actions***

The budget provides \$54 million to continue implementation of new student assessments and \$33 million to provide a cost-of-living adjustment (COLA) for several K-12 programs (including special education and child nutrition programs).

**Infrastructure**

***Allocates \$189 Million for Emergency Repair Program (ERP)***

Chapter 899, Statutes of 2004 (SB 6, Alpert), created the ERP to fund critical repair projects at certain low-performing schools. Chapter 899 requires the state to contribute a total of \$800 million for the program. The state has provided \$338 million to date. The budget provides \$189 million for the ERP in 2014-15.

***Allocates \$27 Million in One-Time Funds for School Internet Infrastructure***

The budget includes \$27 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. Grantees are to be selected based on the results of a statewide assessment of schools' Internet connectivity infrastructure to be completed by the K-12 High-Speed Network (HSN) by March 1, 2015.

## **TUSTIN UNIFIED SCHOOL DISTRICT**

*Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2014*

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

#### ***Shifts Remaining Bond Authority Among Certain School Facility Programs***

The budget package shifts remaining bond authority from the Career Technical Education (CTE) and High Performance Incentive (HPI) school facility programs to the New Construction and Modernization facility programs.

#### **Local Reserves**

##### ***Requires School Districts to Disclose and Justify Reserves***

Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the amount of reserves that exceed the minimum and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time it submits a budget to its COE.

##### ***Caps Local Reserves Some Years Under Proposition 2***

Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 3 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2014-15 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, 2014

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	Total Governmental Activities
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash	\$ 179,092,788
Investments	4,586,185
Accounts receivable	12,400,513
Inventories	214,961
Total current assets	<u>196,294,447</u>
<b>Capital assets:</b>	
Non-depreciable assets	185,584,849
Depreciable assets	476,069,538
Less accumulated depreciation	<u>(107,912,484)</u>
Total capital assets, net of depreciation	<u>553,741,903</u>
 Total assets	 <u>750,036,350</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	20,984,331
Unearned revenue	166,081
Total current liabilities	<u>21,150,412</u>
<b>Long-term liabilities:</b>	
Due within one year	6,249,404
Due after one year	180,552,620
Total long-term liabilities	<u>186,802,024</u>
 Total liabilities	 <u>207,952,436</u>
 <b>NET POSITION</b>	
Net investment in capital assets	403,585,092
Restricted for:	
Capital projects	71,135,350
Debt service	9,491,273
Categorical programs	20,688,525
Workers' compensation claims	7,129,526
Unrestricted	<u>30,054,148</u>
 Total net position	 <u>\$ 542,083,914</u>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2014*

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
Instructional services:				
Instruction	\$ 127,558,581	\$ 47,340	\$ 16,654,287	\$ (110,856,954)
Instruction-related services:				
Supervision of instruction	6,488,782	-	6,847,898	359,116
Instructional library, media and technology	943,842	-	-	(943,842)
School site administration	12,185,370	6,424	96,289	(12,082,657)
Pupil support services:				
Home-to-school transportation	3,481,456	-	-	(3,481,456)
Food services	7,632,189	1,866,237	5,301,392	(464,560)
All other pupil services	9,855,006	4,528	3,709,939	(6,140,539)
General administration services:				
Data processing services	1,973,505	-	-	(1,973,505)
Other general administration	6,520,959	854	1,257,242	(5,262,863)
Plant services	20,700,034	-	1,162,347	(19,537,687)
Ancillary services	1,157,494	-	1,053,689	(103,805)
Community services	1,146,753	-	-	(1,146,753)
Interest on long-term debt	7,715,216	-	-	(7,715,216)
Other outgo	2,737,868	-	1,445,009	(1,292,859)
Depreciation (unallocated)	12,471,959	-	-	(12,471,959)
Total Governmental Activities	\$ 222,569,014	\$ 1,925,383	\$ 37,528,092	(183,115,539)
<b>General Revenues:</b>				
Property taxes				105,281,465
Federal and state aid not restricted to specific purpose				59,914,258
Interest and investment earnings				289,485
Miscellaneous				5,465,327
Total general revenues				170,950,535
Change in net position				(12,165,004)
Net position - July 1, 2013, as originally stated				554,838,628
Adjustments for restatement (Note 14)				(589,710)
Net position - July 1, 2013, as restated				554,248,918
Net position - June 30, 2014				\$ 542,083,914

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Balance Sheet – Governmental Funds*  
*June 30, 2014*

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 69,480,632	\$ 20,936,919	\$ 51,494,956	\$ 37,180,281	\$ 179,092,788
Investments	-	-	-	4,586,185	4,586,185
Accounts receivable	10,417,562	6,779	17,964	1,749,683	12,191,988
Due from other funds	465,161	42	-	2,703,681	3,168,884
Inventories	182,152	-	-	32,809	214,961
Total Assets	<u>\$ 80,545,507</u>	<u>\$ 20,943,740</u>	<u>\$ 51,512,920</u>	<u>\$ 46,252,639</u>	<u>\$ 199,254,806</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 10,608,194	\$ 7,249,708	\$ 55,309	\$ 571,605	\$ 18,484,816
Due to other funds	2,703,723	7,749	-	457,412	3,168,884
Unearned revenue	166,081	-	-	-	166,081
Total Liabilities	<u>13,477,998</u>	<u>7,257,457</u>	<u>55,309</u>	<u>1,029,017</u>	<u>21,819,781</u>
<b>Fund Balances</b>					
Nonspendable	332,152	-	-	32,809	364,961
Restricted	15,285,332	13,686,283	51,457,611	45,190,813	125,620,039
Assigned	29,854,811	-	-	-	29,854,811
Unassigned	21,595,214	-	-	-	21,595,214
Total Fund Balances	<u>67,067,509</u>	<u>13,686,283</u>	<u>51,457,611</u>	<u>45,223,622</u>	<u>177,435,025</u>
Total Liabilities and Fund Balances	<u>\$ 80,545,507</u>	<u>\$ 20,943,740</u>	<u>\$ 51,512,920</u>	<u>\$ 46,252,639</u>	<u>\$ 199,254,806</u>

## TUSTIN UNIFIED SCHOOL DISTRICT

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2014

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**Total fund balances - governmental funds** \$ 177,435,025

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	661,654,387	
Accumulated depreciation	<u>(107,912,484)</u>	
Net:		553,741,903

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

(2,499,515)

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.

208,525

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

General obligation bonds	173,457,144	
Workers' compensation claims	5,447,901	
Compensated absences	1,164,894	
Other postemployment benefits	<u>6,732,085</u>	<u>(186,802,024)</u>

**Total net position - governmental activities** \$ 542,083,914

## TUSTIN UNIFIED SCHOOL DISTRICT

### Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2014

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
LCFF sources	\$ 146,920,831	\$ -	\$ -	\$ -	\$ 146,920,831
Federal sources	6,922,421	-	-	6,408,305	13,330,726
Other state sources	26,173,825	-	-	1,748,711	27,922,536
Other local sources	4,221,152	91,435	177,459	17,771,786	22,261,832
Total Revenues	184,238,229	91,435	177,459	25,928,802	210,435,925
<b>EXPENDITURES</b>					
Current:					
Instruction	111,010,724	-	-	692,261	111,702,985
Instruction-related services:					
Supervision of instruction	6,420,727	-	-	14,293	6,435,020
Instructional library, media and technology	924,591	-	-	-	924,591
School site administration	11,957,706	-	-	93,942	12,051,648
Pupil support services:					
Home-to-school transportation	3,480,542	-	-	-	3,480,542
Food services	(57,494)	-	-	7,972,101	7,914,607
All other pupil services	9,695,865	-	-	66,209	9,762,074
Ancillary services	1,155,918	-	-	-	1,155,918
Community services	366,012	-	-	774,744	1,140,756
Enterprise activities	-	-	-	5,586	5,586
General administration services:					
Data processing services	1,967,658	-	-	-	1,967,658
Other general administration	6,526,278	-	-	-	6,526,278
Plant services	19,537,671	-	-	-	19,537,671
Transfers of indirect costs	(368,687)	-	-	368,687	-
Capital Outlay	2,983,115	27,949,036	2,303,218	2,240,547	35,475,916
Intergovernmental transfers	2,737,868	-	-	-	2,737,868
Debt Service:					
Interest	-	-	-	7,865,845	7,865,845
Principal	-	-	-	2,332,140	2,332,140
Total Expenditures	178,338,494	27,949,036	2,303,218	22,426,355	231,017,103
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	5,899,735	(27,857,601)	(2,125,759)	3,502,447	(20,581,178)
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in	-	-	-	2,701,596	2,701,596
Interfund transfers out	(2,701,596)	-	-	-	(2,701,596)
All other financing sources	-	-	-	8,099	8,099
Total Other Financing Sources and Uses	(2,701,596)	-	-	2,709,695	8,099
Net Change in Fund Balances	3,198,139	(27,857,601)	(2,125,759)	6,212,142	(20,573,079)
Fund Balances, July 1, 2013	63,869,370	41,543,884	53,583,370	39,011,480	198,008,104
Fund Balances, June 30, 2014	\$ 67,067,509	\$ 13,686,283	\$ 51,457,611	\$ 45,223,622	\$ 177,435,025

# 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, 2014

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**Total net change in fund balances - governmental funds** \$ (20,573,079)

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	20,324,881	
Depreciation expense	<u>(12,471,959)</u>	
Net		7,852,922

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:

(14,658)

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:

2,332,140

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:

801,091

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:

(663,945)

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:

13,483

In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned. The difference between interest received and earned during the year was:

(16,179)

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

(1,855,320)

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*).

(41,459)

**Change in net position of governmental activities** \$ (12,165,004)

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Statement of Fiduciary Net Position*  
*June 30, 2014*

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	<b>Agency Funds</b>			<b>Totals</b>
	<b>Student Body Funds</b>	<b>IRC Section 125 Fund</b>	<b>Debt Service Fund for Special Tax Bonds</b>	
<b>Assets</b>				
Cash	\$ 689,024	\$ 40,000	\$ 25,825,506	\$ 26,554,530
Investments	-	-	19,761,462	19,761,462
Inventories	24,061	-	-	24,061
<b>Total Assets</b>	<b>\$ 713,085</b>	<b>\$ 40,000</b>	<b>\$ 45,586,968</b>	<b>\$ 46,340,053</b>
<b>Liabilities</b>				
Due to student groups	\$ 692,518	\$ -	\$ -	\$ 692,518
Accounts payable	20,567	-	-	20,567
Due to employees	-	40,000	-	40,000
Due to bondholders	-	-	45,586,968	45,586,968
<b>Total Liabilities</b>	<b>\$ 713,085</b>	<b>\$ 40,000</b>	<b>\$ 45,586,968</b>	<b>\$ 46,340,053</b>

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District's 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, Community Facilities Districts, and Tustin USD Financing Authority. 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>
<b>Tustin USD Financing Corporation</b> 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.
<b>Community Facilities Districts (CFD):</b> 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.
<b>Tustin USD Financing Authority</b> was formed to create an agency between the District and CFD No. 07-1 of the Tustin Unified School District. The purpose of the agency is to assist in providing financing and refinancing for public capital improvements in the District and the CFD.	Board of Education composes board of Financing Authority	Prepared.



# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### 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, 2014

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

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### 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. Budgetary Data

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

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

#### D. Encumbrances

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

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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

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

##### 1. 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.

##### 2. 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

##### 3. Compensated Absences

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

##### 4. 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.

##### 5. 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.

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

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

###### 5. Fund Balances (continued)

**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.

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has no deferred inflows of resources.

###### 7. Net Position

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

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

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

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

###### 7. Net Position (continued)

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

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

##### F. 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.

##### G. New GASB Pronouncement

During the 2013-14 fiscal year, the following GASB Pronouncement became effective:

###### **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.

Due to the implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2013 by \$2,347,808, which is the amount of unamortized debt issuance costs at July 1, 2013.

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.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2014*

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**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2014 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	\$ 178,802,788	\$ 25,825,506
Total Pooled Funds	<u>178,802,788</u>	<u>25,825,506</u>
Deposits:		
Cash on hand and in banks	140,000	689,024
Cash in revolving fund	<u>150,000</u>	<u>40,000</u>
Total Deposits	<u>290,000</u>	<u>729,024</u>
Total Cash	<u>\$ 179,092,788</u>	<u>\$ 26,554,530</u>
Investments:		
US Bank money market funds	\$ 4,586,185	10,387,906
US Bank insurance policy	-	2,847,038
Union Bank money market funds	<u>-</u>	<u>6,526,518</u>
Total Investments	<u>\$ 4,586,185</u>	<u>\$ 19,761,462</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, 2014, 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, 2014

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

#### Custodial Credit Risk – Deposits (continued)

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

As of June 30, 2014, \$803,831 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, 2014 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	\$ 14,974,091	\$ 14,974,091	\$ -
Insurance Policy	2,847,038	-	2,847,038
Union Bank Money Market Funds	6,526,518	6,526,518	-
Total Investments	<u>\$ 24,347,647</u>	<u>\$ 21,500,609</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, 2014, 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, 2014, the District had the following investments that represents more than five percent of the District's net investments.

US Bank Money Market Fund	61%
US Bank Insurance Policy	12%
Union Bank Money Market Funds	27%



**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2014

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**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2014 consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	\$ 2,882,295	\$ -	\$ -	\$ -	\$ 2,882,295
Food service	-	-	-	1,303,680	1,303,680
State Government:					
LCFF sources	687,855	-	-	-	687,855
Lottery	1,738,611	-	-	-	1,738,611
Categorical aid programs	3,151,892	-	-	426,387	3,578,279
Local:					
Interest	1,668	6,779	17,964	11,380	37,791
Miscellaneous	1,955,241	-	-	8,236	1,963,477
<b>Total</b>	<b>\$ 10,417,562</b>	<b>\$ 6,779</b>	<b>\$ 17,964</b>	<b>\$ 1,749,683</b>	<b>\$ 12,191,988</b>

**NOTE 4 - INTERFUND TRANSACTIONS**

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

Balances due to/from other funds at June 30, 2014 consisted of the following:

	Due From Other Funds			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 42	\$ 2,703,681	\$ 2,703,723
Building Fund	7,749	-	-	7,749
Non-Major Governmental Funds	457,412	-	-	457,412
<b>Total</b>	<b>\$ 465,161</b>	<b>\$ 42</b>	<b>\$ 2,703,681</b>	<b>\$ 3,168,884</b>

General Fund due to Cafeteria Fund to correct UI and for reimbursement of costs	1,107
General Fund due to Child Development Fund to correct UI and for reimbursement of costs	977
General Fund due to Building Fund to correct UI	42
General Fund due to Special Reserve Fund for Capital Outlay Projects for special reserve transfer	2,701,597
Building Fund due to General Fund for health and welfare benefits	7,749
Cafeteria Fund due to General Fund for indirect costs, health and welfare, and other operating costs	59,091
Child Development Fund due to General Fund for benefits, transportation, school readiness, indirect costs and other operating costs	398,321
<b>Total</b>	<b>\$ 3,168,884</b>

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

Transfers to/from other funds during the year ended June 30, 2014 consisted of the following:

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for redevelopment fees	<u>\$ 2,701,596</u>
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# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

### 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.

At June 30, 2014, 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
<b>Nonspendable:</b>					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	182,152	-	-	32,809	214,961
Total Nonspendable	332,152	-	-	32,809	364,961
<b>Restricted:</b>					
Categorical programs	15,285,332	-	-	-	15,285,332
Child development programs	-	-	-	563,412	563,412
Food service program	-	-	-	3,743,973	3,743,973
Capital projects	-	13,686,283	51,457,611	24,262,629	89,406,523
Debt service	-	-	-	9,491,273	9,491,273
Workers' compensation claims	-	-	-	7,129,526	7,129,526
Total Restricted	15,285,332	13,686,283	51,457,611	45,190,813	125,620,039
<b>Assigned:</b>					
Adult education program	61,861	-	-	-	61,861
Deferred maintenance program	6,038,489	-	-	-	6,038,489
Other assignments	3,977,913	-	-	-	3,977,913
Benefit accounts	120,000	-	-	-	120,000
Accrued vacation liability	1,132,512	-	-	-	1,132,512
Uncertain LCFF reserves	12,471,565	-	-	-	12,471,565
ERRP reserves	426,968	-	-	-	426,968
Unfulfilled district priorities	2,367,205	-	-	-	2,367,205
Facilities maintenance reserves	1,758,298	-	-	-	1,758,298
Technology refresh reserves	1,500,000	-	-	-	1,500,000
Total Assigned	29,854,811	-	-	-	29,854,811
<b>Unassigned:</b>					
Reserve for economic uncertainties	21,595,214	-	-	-	21,595,214
Total Unassigned	21,595,214	-	-	-	21,595,214
<b>Total</b>	<b>\$ 67,067,509</b>	<b>\$ 13,686,283</b>	<b>\$ 51,457,611</b>	<b>\$ 45,223,622</b>	<b>\$177,435,025</b>

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Notes to Financial Statements*  
 June 30, 2014

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	\$ 176,147,527	\$ -	\$ -	\$ 176,147,527
Construction in progress	13,909,375	8,256,947	12,729,000	9,437,322
Total capital assets not being depreciated	<u>190,056,902</u>	<u>8,256,947</u>	<u>12,729,000</u>	<u>185,584,849</u>
Capital assets being depreciated:				
Improvement of sites	31,041,283	12,970,683	-	44,011,966
Buildings	403,939,629	10,018,739	21,531	413,936,837
Equipment	16,344,614	1,807,512	31,391	18,120,735
Total capital assets being depreciated	<u>451,325,526</u>	<u>24,796,934</u>	<u>52,922</u>	<u>476,069,538</u>
Accumulated depreciation for:				
Improvement of sites	(7,611,305)	(1,900,712)	-	(9,512,017)
Buildings	(77,560,469)	(9,401,780)	(9,150)	(86,953,099)
Equipment	(10,307,015)	(1,169,467)	(29,114)	(11,447,368)
Total accumulated depreciation	<u>(95,478,789)</u>	<u>(12,471,959)</u>	<u>(38,264)</u>	<u>(107,912,484)</u>
Total capital assets being depreciated, net	<u>355,846,737</u>	<u>12,324,975</u>	<u>14,658</u>	<u>368,157,054</u>
Governmental activity capital assets, net	<u>\$ 545,903,639</u>	<u>\$ 20,581,922</u>	<u>\$ 12,743,658</u>	<u>\$ 553,741,903</u>

**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the fiscal year ended June 30, 2014 were as follows:

	Originally Reported		Restated		Balance, June 30, 2014	Amount Due Within One Year	
	Balance, July 1, 2013	Adjustment for Restatement	Balance, July 1, 2013	Additions			Deductions
General Obligation Bonds:							
Principal Payments	\$ 162,786,785	\$ -	\$ 162,786,785	\$ -	\$ 2,332,140	\$ 160,454,645	\$ 5,380,857
Accreted Interest	5,042,643	-	5,042,643	1,464,377	1,477,860	5,029,160	509,143
Unamortized Issuance Premium	10,532,528	(1,758,098)	8,774,430	-	801,091	7,973,339	359,404
Total - GO Bonds	<u>178,361,956</u>	<u>(1,758,098)</u>	<u>176,603,858</u>	<u>1,464,377</u>	<u>4,611,091</u>	<u>173,457,144</u>	<u>6,249,404</u>
Workers' Compensation Claims	5,447,901	-	5,447,901	-	-	5,447,901	-
Compensated Absences	1,123,435	-	1,123,435	41,459	-	1,164,894	-
Other Postemployment Benefits	4,876,765	-	4,876,765	1,855,320	-	6,732,085	-
Totals	<u>\$ 189,810,057</u>	<u>\$ (1,758,098)</u>	<u>\$ 188,051,959</u>	<u>\$ 3,361,156</u>	<u>\$ 4,611,091</u>	<u>\$ 186,802,024</u>	<u>\$ 6,249,404</u>

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

**A. General Obligation Bonds**

**Measure G**

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

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

### 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, 2014, there was no principal balance outstanding on the defeased debt.

Below is a schedule of bonds issued and outstanding as of June 30, 2014.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2013	Additions	Deductions	Balance, June 30, 2014
<b>Measure G:</b>								
2002B	6/15/2006	2031	4.25% - 5.12%	\$ 17,350,000	\$ 9,845,000	-	\$ 365,000	\$ 9,480,000
2002C	5/1/2008	2032	4.00% - 5.00%	22,649,972	19,369,998	-	528,909	18,841,089
2002D	3/10/2010	2034	6.00% - 6.90%	24,998,556	24,998,556	-	-	24,998,556
<b>Measure L:</b>								
2008A	3/30/2010	2034	3.00% - 6.589%	25,000,000	22,725,000	-	590,000	22,135,000
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
<b>Measure S:</b>								
2012A	3/14/2013	2037	2.0% - 5.0%	35,000,000	35,000,000	-	-	35,000,000
<b>Refunding Bonds:</b>								
Refunding	6/15/2006	2014	3.82% - 4.34%	8,604,947	848,231	-	848,231	-
				<u>\$ 183,603,475</u>	<u>\$ 162,786,785</u>	<u>\$ -</u>	<u>\$ 2,332,140</u>	<u>\$ 160,454,645</u>
<b>Accreted Interest:</b>								
				Refunding	\$ 1,034,183	\$ 82,586	\$ 1,116,769	\$ -
				2002C	1,222,971	302,614	361,091	1,164,494
				2002D	2,785,489	1,079,177	-	3,864,666
					<u>\$ 5,042,643</u>	<u>\$ 1,464,377</u>	<u>\$ 1,477,860</u>	<u>\$ 5,029,160</u>

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

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

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

Fiscal Year	Principal	Interest	Total
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
2018-19	6,180,680	6,638,804	12,819,484
2019-24	26,015,786	35,613,432	61,629,218
2024-29	36,072,577	29,551,108	65,623,685
2029-34	41,855,000	13,052,122	54,907,122
2034-39	24,015,000	3,135,669	27,150,669
2039-43	5,535,000	453,500	5,988,500
Total	<u>\$ 160,454,645</u>	<u>\$ 117,633,316</u>	<u>\$ 278,087,961</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 \$255,007,675 as of June 30, 2014 does not represent debt of the District and, as such, does not appear in the financial statements.

#### NOTE 8 – JOINT VENTURES

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

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

## TUSTIN UNIFIED SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2014

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

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

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

	ASCIP June 30, 2014 (Unaudited)
Total Assets	\$ 331,028,387
Total Liabilities	<u>186,877,358</u>
Net Position	<u>\$ 144,151,029</u>
Total Revenues	\$ 205,948,958
Total Expenditures	<u>194,648,227</u>
Change in Net Assets	<u>\$ 11,300,731</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, 2014, the District had commitments with respect to unfinished capital projects of approximately \$25.3 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, 2014.

# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### NOTE 10 – RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, 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 2013-14, 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, 2012 to June 30, 2014:

	<u>Workers' Compensation</u>
Liability Balance, July 1, 2012	\$ 6,386,000
Claims and changes in estimates	(932,169)
Claims payments	<u>(5,930)</u>
Liability Balance, June 30, 2013	5,447,901
Claims and changes in estimates	5,585
Claims payments	<u>(5,585)</u>
Liability Balance, June 30, 2014	<u>\$ 5,447,901</u>
Assets available to pay claims at June 30, 2014	<u>\$ 7,129,526</u>

### 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, 2014

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### 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 2013-14 was 11.442%. 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>
2013-14	\$ 3,033,482	100%
2012-13	\$ 2,822,696	100%
2011-12	\$ 2,610,329	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](http://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 2013-14 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>
2013-14	\$ 7,289,580	100%
2012-13	\$ 6,755,914	100%
2011-12	\$ 6,444,394	100%



# TUSTIN UNIFIED SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2014

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### 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 \$3.8 million to STRS (4.267% of salaries subject to STRS in 2013-14).

### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

#### Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees receiving benefits*	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 - CAP	Up to \$12,500	Up to \$12,500

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

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2013-14, the District contributed \$961,491.

#### 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, 2014

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#### 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	243,838
Adjustment to ARC	<u>(216,007)</u>
Annual OPEB cost	2,816,811
Contributions made	<u>(961,491)</u>
Increase (decrease) in net OPEB obligation	1,855,320
Net OPEB obligation - July 1, 2013	<u>4,876,765</u>
Net OPEB obligation - June 30, 2014	<u>\$ 6,732,085</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013-14 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 2,206,362	51.9%	\$ 3,104,311
2013	\$ 2,806,696	37.1%	\$ 4,876,765
2014	\$ 2,816,811	34.5%	\$ 6,732,085

##### 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, 2014

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### 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 PRONOUNCEMENT

The following statement issued by the Governmental Accounting Standards Board (GASB) will become effective in 2014-15 and is expected to have a significant impact on the District's financial reporting:

#### **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.

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.

## **TUSTIN UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2014*

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### **NOTE 13 – FUTURE GASB PRONOUNCEMENT (continued)**

#### **Statement No. 68 (continued)**

##### **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.

### **NOTE 14 – ADJUSTMENTS FOR RESTATEMENT**

In addition to the restatement described in Note 1.G., the beginning net position on the government-wide statement of activities has also been restated by \$1,758,098 to correct the balance of unamortized premiums on outstanding bonds as shown in Note 7. The net effect of the two restatements is a decrease of \$589,710.

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***Required Supplementary Information***

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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Budgetary Comparison Schedule – General Fund*  
*For the Fiscal Year Ended June 30, 2014*

	<b>Budgeted Amounts</b>		<b>Actual* (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
LCFF sources	\$ 146,119,666	\$ 141,712,002	\$ 141,712,003	\$ 1
Federal sources	7,843,332	7,841,103	6,922,421	(918,682)
Other State sources	20,691,609	27,239,599	26,147,032	(1,092,567)
Other Local sources	6,385,080	7,199,737	4,206,144	(2,993,593)
<b>Total Revenues</b>	<b>181,039,687</b>	<b>183,992,441</b>	<b>178,987,600</b>	<b>(5,004,841)</b>
<b>Expenditures</b>				
Current:				
Certificated salaries	86,169,169	89,364,070	88,876,554	487,516
Classified salaries	28,598,563	28,762,148	28,649,356	112,792
Employee benefits	36,238,163	34,264,774	31,235,904	3,028,870
Books and supplies	10,241,976	7,877,648	6,138,038	1,739,610
Services and other operating expenditures	19,517,992	18,028,987	17,579,048	449,939
Transfers of indirect cost	(370,189)	(368,687)	(368,687)	-
Capital outlay	645,000	461,704	461,702	2
Intergovernmental transfers	2,264,029	2,737,869	2,737,867	2
<b>Total Expenditures</b>	<b>183,304,703</b>	<b>181,128,513</b>	<b>175,309,782</b>	<b>5,818,731</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,265,016)	2,863,928	3,677,818	813,890
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	(3,848,828)	(2,701,596)	(2,701,596)	-
<b>Total Other Financing Sources and Uses</b>	<b>(3,848,828)</b>	<b>(2,701,596)</b>	<b>(2,701,596)</b>	<b>-</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(6,113,844)	162,332	976,222	813,890
Fund Balances, July 1, 2013	50,666,709	50,666,709	56,013,024	-
Fund Balances, June 30, 2014	\$ 44,552,865	\$ 50,829,041	\$ 56,989,246	\$ 813,890

\* 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, 2014*

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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, 2014*

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#### **NOTE 1 - PURPOSE OF SCHEDULES**

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

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

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

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

#### **NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2014, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

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***Supplementary Information***

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## TUSTIN UNIFIED SCHOOL DISTRICT

### *Local Educational Agency Organization Structure*

*June 30, 2014*

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

<b>GOVERNING BOARD</b>		
<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
James Laird	President	November 2016
Francine Scinto	Vice President	November 2016
Lynn Davis	Clerk	November 2014
Jonathan Abelow	Member	November 2014
Tammie Bullard	Member	November 2016

#### **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, 2014*

**Second Period Report - Certificate No. (BBFEB68)**

<b>Regular ADA:</b>	<b>TK/K-3</b>	<b>Grades 4-6</b>	<b>Grades 7-8</b>	<b>Grades 9-12</b>	<b>Total</b>
Regular ADA	6,748.71	5,495.64	3,676.45	7,310.91	23,231.71
Extended Year Special Education	6.98	4.21	1.95	5.59	18.73
Special Education - Nonpublic schools	-	0.71	2.13	4.62	7.46
Extended Year Nonpublic, Nonsectarian Schools	-	0.15	0.14	0.55	0.84
<b>Total ADA</b>	<b>6,755.69</b>	<b>5,500.71</b>	<b>3,680.67</b>	<b>7,321.67</b>	<b>23,258.74</b>

**Other (included in Regular ADA amounts):**

Full-Time Independent Study	17.74
Transitional Kindergarten	144.74
Continuation Education	168.55

**Annual Report - Certificate No. (6CDA966F)**

<b>Regular ADA:</b>	<b>TK/K-3</b>	<b>Grades 4-6</b>	<b>Grades 7-8</b>	<b>Grades 9-12</b>	<b>Total</b>
Regular ADA	6,750.28	5,489.18	3,664.71	7,280.11	23,184.28
Extended Year Special Education	6.98	4.21	1.95	5.59	18.73
Special Education - Nonpublic schools	-	0.81	2.27	4.59	7.67
Extended Year Nonpublic, Nonsectarian Schools	-	0.15	0.14	0.55	0.84
<b>Total ADA</b>	<b>6,757.26</b>	<b>5,494.35</b>	<b>3,669.07</b>	<b>7,290.84</b>	<b>23,211.52</b>

**Other (included in Regular ADA amounts):**

Full-Time Independent Study	19.11
Transitional Kindergarten	144.58
Continuation Education	168.97

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2014*

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Grade Level	1986-87 Minutes		2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
	Previously Required	Reduced*			
Kindergarten	36,000	35,000	36,540	180	Complied
Grade 1	50,400	49,000	50,974	180	Complied
Grade 2	50,400	49,000	50,974	180	Complied
Grade 3	50,400	49,000	50,974	180	Complied
Grade 4	54,000	52,500	54,588	180	Complied
Grade 5	54,000	52,500	54,588	180	Complied
Grade 6	54,000	52,500	59,102	180	Complied
Grade 7	54,000	52,500	59,102	180	Complied
Grade 8	54,000	52,500	59,102	180	Complied
Grade 9	64,800	63,000	63,343	180	Complied
Grade 10	64,800	63,000	63,343	180	Complied
Grade 11	64,800	63,000	63,343	180	Complied
Grade 12	64,800	63,000	63,343	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, 2014*

General Fund	(Budget)			
	2015 <sup>3</sup>	2014 <sup>5</sup>	2013	2012
Revenues and other financing sources	\$ 201,686,062	\$ 178,987,600	\$ 172,945,190	\$ 170,406,345
Expenditures	208,607,170	175,309,782	163,111,924	158,684,611
Other uses and transfers out	1,450,257	2,701,596	4,486,952	5,714,530
Total outgo	210,057,427	178,011,378	167,598,876	164,399,141
Change in fund balance (deficit)	(8,371,365)	976,222	5,346,314	6,007,204
Ending fund balance	\$ 48,617,881	\$ 56,989,246	\$ 56,013,024	\$ 50,666,710
Available reserves <sup>1</sup>	\$ 18,066,495	\$ 21,595,214	\$ 28,128,604	\$ 17,535,378
Available reserves as a percentage of total outgo	8.6%	12.1%	16.8%	10.7%
Total long-term debt <sup>4</sup>	\$ 180,552,620	\$ 186,802,024	\$ 188,051,959	\$ 129,250,061
Average daily attendance at P-2 <sup>2</sup>	23,346	23,259	23,134	22,890

The General Fund balance has increased by approximately \$6.3 million over the past two years. The fiscal year 2014-15 adopted budget projects a decrease of approximately \$8.4 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 2014-15 fiscal year. Long-term debt has increased by \$57.6 million over the past two years.

Average daily attendance has increased by 369 over the past two years. The District projects an increase of 87 ADA in 2014-15.

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

<sup>2</sup> Excludes Adult Education ADA and ROC/P ADA.

<sup>3</sup> Budget as of September 2014

<sup>4</sup> As restated

<sup>5</sup> The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Adult Education Fund, Deferred Maintenance Fund and Special

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2014*

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	\$ 38,595	
School Breakfast Program - Especially Needy	10.553	13526	1,241,364	
National School Lunch Program	10.555	13523	3,393,797	
Summer Food Service Program Operations	10.559	13004	19,467	
USDA Donated Foods	10.555	N/A	<u>367,674</u>	
Total Child Nutrition Cluster				\$ 5,060,897
Child Care Food Program Cluster:				
CCFP Claims Centers and Family Day Care Homes	10.558	13394	404,932	
CCFP Cash in Lieu of Commodities	10.558	13389	<u>32,132</u>	
Total Child Care Food Program Cluster				<u>437,064</u>
Total U.S. Department of Agriculture				<u>5,497,961</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,155,275
Title II, Part A, Teacher Quality Local	84.367	14341		382,289
Title III, Limited English Proficiency	84.365	14346		453,017
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster (IDEA)				
Local Assistance Entitlement	84.027	13379	3,106,042	
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	73,635	
IDEA Preschool Staff Development, Part B, Section 619	84.173A	13431	1,000	
Preschool Local Entitlement, Part B	84.027A	13682	302,318	
IDEA Early Intervention Grant, Part C	84.181	23761	61,210	
IDEA State Improvement Grant, Improving Special Ed Systems	84.323	14913	2,623	
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	<u>268,574</u>	
Total Special Education (IDEA) Cluster				3,815,402
Carl Perkins Act - Secondary	84.048	14894		<u>116,439</u>
Total U.S. Department of Education				<u>6,922,422</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	32,963	
Medi-Cal Administrative Activities (MAA)	93.778	10060	<u>684,944</u>	
Total Medicaid Cluster				717,907
Child Care Mandatory and Matching funds - Child Care and Development Fund	93.596	13609		<u>367,759</u>
Total U.S. Department of Health & Human Services				<u>1,085,666</u>
Total Expenditures of Federal Awards				<u>\$ 13,506,049</u>

**TUSTIN UNIFIED SCHOOL DISTRICT***Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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	General Fund	Capital Projects Fund for Blended Component Units
	<u>                    </u>	<u>                    </u>
June 30, 2014, annual financial and budget report (SACS) fund balances	\$ 58,052,245	7,324,187
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Accounts receivable overstated*	(1,062,999)	-
Removal of CFD debt service activity	<u>                    -</u>	<u>(2,739,297)</u>
Net adjustments and reclassifications	<u>(1,062,999)</u>	<u>(2,739,297)</u>
June 30, 2014, audited financial statement fund balances	<u>\$ 56,989,246</u>	<u>\$ 4,584,890</u>

\* The District received these funds from the California Clean Energy Jobs Act, but like most California school districts, did not have an approved spending plan in place as of June 30, 2014.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Note to the Supplementary Information*  
*June 30, 2014*

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**NOTE 1 – PURPOSE OF SCHEDULES**

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

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

**Schedule of Instructional Time**

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement, as 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, 2014, 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 1, 2014.

**Internal Control Over Financial Reporting**

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

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

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



**Compliance and Other Matters**

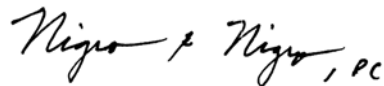
As part of obtaining reasonable assurance about whether Tustin Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-1 and 2014-2.

**Tustin Unified School District's Responses to Findings**

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

**Purpose of this Report**

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



Murrieta, California  
December 1, 2014



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 2013-14, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. 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 2013-14. 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 for School Districts, Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, and Early Retirement Incentive.

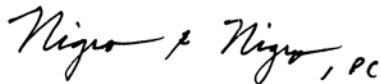
Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No (see below)
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	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
Charter School Facility Grant Program	1	Not applicable

We did not perform testing for independent study because the ADA was under the level that requires testing. We also did not perform testing for California Clean Energy Jobs Act because the District incurred no expenditures during the year.

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

In our opinion, Tustin Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

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 2013-14*. Accordingly, this report is not suitable for any other purpose.



Murrieta, California  
December 1, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND 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, 2014. 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, 2014.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-1 and 2014-2. Our opinion on each major federal program is not modified with respect to these matters.

Tustin Unified School District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Tustin Unified School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

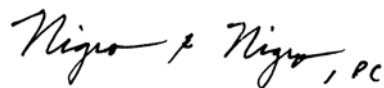
### **Report on Internal Control Over Compliance**

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.



Murrieta, California  
December 1, 2014

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***Findings and Questioned Costs***

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**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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

***Financial Statements***

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</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>Yes</u>
Identification of major programs:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title, I Part A Cluster
10.553, 10.555,	
10.559	Child Nutrition Cluster
10.558	Child Care Food Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 405,181</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, 2014*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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

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

***There were no financial statement findings in 2013-14.***

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**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).

**Finding 2014-1: National School Lunch Program OPEB Cost Allocations (50000)**

**Program Identification:**

Federal Agency: U.S. Department of Agriculture  
Pass-through Entity: California Department of Education  
Program Names: Child Nutrition Cluster  
                    School Breakfast Program (CFDA No. 10.553)  
                    National School Lunch Program (CFDA No. 10.555)

**Criteria:** Expenditures for other postemployment benefits (OPEB) relating to previously retired employees represent costs that were not funded during the employees' years of service and those that cannot be identified with any program objective currently. These costs represent an obligation for which the District is liable but from which current programs derive no direct benefit. Federal programs may absorb a share of OPEB costs relating to retirees only if the costs are allocated to all activities and only if the allocation base is as broad as possible.

**Condition:** The District charged retirees who worked under the Food service program directly to the Child Nutrition programs.

**Questioned Costs:** Total costs allocated directly were \$56,438.55.

**Cause:** The District charged the specific fund and program for the retiree rather than charge the costs across all activities. The District felt the charges were equitable between the General Fund and the Food Service Fund because the retirees' salary while active originated in that fund.

**Recommendation:** We recommend the District allocate retiree OPEB costs across all activities broadly, as required by federal guidelines.

**District Response:** The District has elected to eliminate the OPEB charge to the Food Service Fund and no OPEB costs will be allocated to Federal programs.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)**

**Finding 2014-2: Cafeteria Fund Cash Reserves (50000)**

**Program Identification:**

Federal Agency: U.S. Department of Agriculture  
Pass-through Entity: California Department of Education  
Program Names: Child Nutrition Cluster  
                    School Breakfast Program (CFDA No. 10.553)  
                    National School Lunch Program (CFDA No. 10.555)

**Criteria:** The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b).

**Condition:** At June 30, 2014, fund balance in the Cafeteria Fund was \$3,776,782, which exceeds the average of three months expenditures by \$1,694,884.

**Questioned Costs:** None.

**Cause:** The District has an excessive fund balance in the food service account from prior period activity. In the fiscal year ending June 30, 2014, expenditures exceeded revenues by \$911,767, however, the fund balance remains in excess of three months expenditures.

**Recommendation:** We recommend the District submit a spending plan to the CDE and obtain approval in spending the excess of allowable funds.

**District Response:** The District submitted a spending plan to the California Department of Education (CDE) on August 15, 2014 and has received acknowledgement of receipt. The CDE also responded with recognition that the District has begun the proactive process.

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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

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

*There were no state award findings or questioned costs in 2013-14.*

**TUSTIN UNIFIED SCHOOL DISTRICT**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2014*

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2013-1: Bank Accounts</i>	<p>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.</p> <p>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.</p>	30000	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.	Implemented.



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, 2014, 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 1, 2014 on the financial statements of Tustin Unified School District.

#### **ASSOCIATED STUDENT BODY (ASB) FUNDS**

**Observation:** In our test of cash disbursements, we noted that some disbursements selected in our sample were not approved by the District representative, the ASB advisor, and/or the student representative until after the expenditures had already been incurred. In one instance, we noted that a disbursement lacked approval by the ASB advisor.

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

**Observation:** We noted that some of the expenditures tested at two sites lacked adequate supporting documentation. In addition, we noted several disbursements at sites that were an inappropriate use of ASB funds. These included purchases of gift cards and payments for non-ASB expenses.

**Recommendation:** Issuing payment for expenditures without proper approvals and supporting documentation can provide the opportunity for the misappropriation of student funds. 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.

Further, ASB funds are legally considered public funds because they are raised through the District’s tax identification number and under its nontaxable status. We recommend that the ASB funds not be used to purchase gift cards. ASB funds are to be used based on the decision of ASB students and are to benefit students, not to supplement teachers or staff. We recommend that ASB funds not be used to pay for items that benefit teachers and staff.

## **ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)**

**Observation:** We identified several deposits at two sites which lacked a clear audit trail at the point of collection. In addition, we identified occasions where fees for exams were being collected and expended out of the student body account.

**Recommendation:** We recommend cash control procedures include prenumbered tickets for all sales events, cash register for store type sales, prenumbered receipt books (3 part) for all receipt transactions, and a tally sheet for designated activities. Tally sheets should implement a two person system, one who collects the cash and the other who makes a mark on the tally sheet. Good internal controls for cash handling can minimize the opportunity for misappropriation of student funds collected at events. Additionally, ASB accounts should not be used as pass thru or clearing accounts for exams or other non-ASB activity.

**Observation:** We noted at two sites that the December bank reconciliation was not prepared or not prepared timely.

**Recommendation:** We recommend that reconciliations be prepared no later than a month after receipt of the bank statement from the financial system.

**Observation:** During our review of ASB club accounts, we noted there are numerous trust accounts which may indicate inappropriate activity.

**Recommendation:** Education Code sections 48930 states that the purpose of ASB is to conduct activities on behalf of the students, clearly indicating that the funds held in ASB can only be spent for current students. Booster clubs may decide to donate money to an ASB, but once they do so, All ASB rules and requirements apply and the booster club no longer has any control or authority over the donated funds.

**Observation:** Through inquiry and observation, we noted there was a safe available at one site to protect assets such as cash, but the safe is not kept locked during the day and is accessible.

**Recommendation:** We recommend that the staff on site keep the safe locked at all times and minimize who has access to the safe to no more than two or three employees to ensure that student assets are properly safeguarded.

## **DISTRICT OFFICE AND NUTRITION SERVICES**

**Observation:** During expenditure testing of the Cafeteria Fund, we noted nine of forty expenditures tested did not have an indication that they were pre-approved prior to an expenditure being incurred. During testing of expenditures at the District Office of all other funds including the General Fund, we identified fourteen of eighty expenditures tested that were not approved prior to their being incurred and two purchases with unsigned purchase orders.

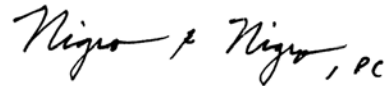
**Recommendation:** We recommend that all purchases are approved prior to being incurred. For repair, supply or other non-recurring type expenditures, we recommend that the District create blanket purchase orders.

**DISTRICT OFFICE**

**Observation:** We identified four of ten receipts that lacked adequate supporting documentation.

**Recommendation:** We recommend cash control procedures include, prenumbered receipt books (3 part) for all receipt transactions. Good internal controls for cash handling can minimize the opportunity for misappropriation of funds collected.

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".

Murrieta, California  
December 1, 2014