TUSTIN UNIFIED SCHOOL DISTRICT

AUDIT REPORT

For the Fiscal Year Ended June 30, 2015

TUSTIN UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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Emphasis of Matter
As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for pensions during fiscal year 2014-15 due to the adoption of Governmental Accounting Standards Board Statement No. 68, *"Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27"* and No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68"*. The adoption of these standards required retrospective application resulting in a $169,060,576 reduction of previously reported net position at July 1, 2014. 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 10, budgetary comparison information on page 47, schedule of funding progress on page 48, schedule of proportionate share of the net pension liability on page 49, and schedule of contributions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information on pages 53 to 57 including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 52 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated December 11, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

Murrieta, California
December 11, 2015

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, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by roughly $10.1 million or 2.6% over the course of the year.
- Overall government-wide revenues were $235.2 million, and overall expenses were $225.1 million.
- The total cost of basic programs was $225.1 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 $182.4 million.
- The District decreased its outstanding long-term debt $18.1 million or 4.9%. This was primarily due to adjustments in the net pension liability.
- Average daily attendance (ADA) in grades K-12 increased by 20, or 0.1%.

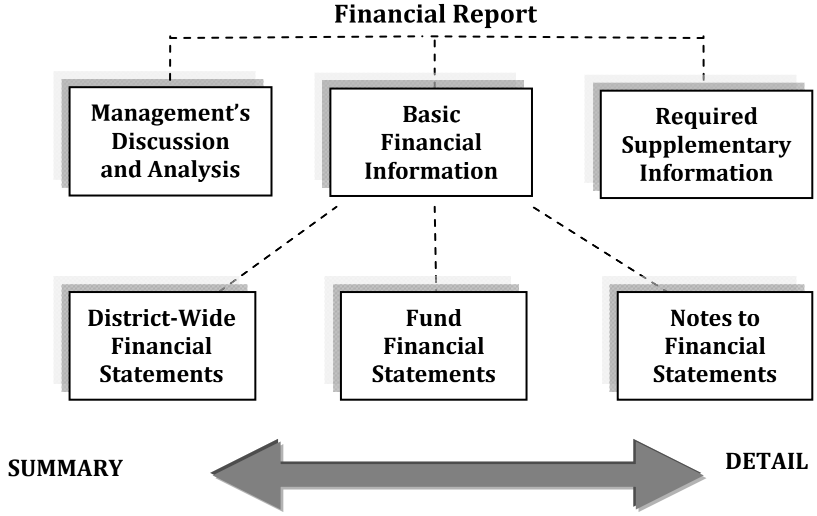
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

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

- Some funds are required by State law and by bond covenants.

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

The District has two kinds of funds:

- ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

- ***Fiduciary funds*** – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2015, than it was the year before – increasing 2.6% to $398.0 million (See Table A-1).

Table A-1

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	**2014***	
Current assets	$ 217.0	$ 211.3	$ 5.7
Capital assets	565.9	553.7	12.2
Total assets	782.9	765.0	17.9
Deferred outflows	18.4	10.2	8.2
Current liabilities	17.1	21.2	(4.1)
Long-term liabilities	348.0	366.1	(18.1)
Total liabilities	365.1	387.3	(22.2)
Deferred inflows	38.2	-	38.2
Net position			
Net investment in capital assets	415.0	418.5	(3.5)
Restricted	111.0	108.4	2.6
Unrestricted	(128.0)	(139.0)	11.0
Total net position	$ 398.0	$ 387.9	$ 10.1

** As restated*

Changes in net position, governmental activities. The District's total revenues increased 11.8% to $235.2 million (See Table A-2). The increase is due primarily to increased federal and state aid.

The total cost of all programs and services increased 1.1% to $225.1 million. The District's expenses are predominantly related to educating and caring for students, 75.4%. The purely administrative activities of the District accounted for just 3.3% of total costs. A significant contributor to the increase in costs was an increase in instructional service costs.

Table A-2

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	**2014**	
Total Revenues	$ 235.2	$ 210.4	$ 24.8
Total Expenses	225.1	222.6	2.5
Increase (decrease) in net position	$ 10.1	$ (12.2)	$ 22.3

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 $202.6 million, which is above last year's ending fund balance of $177.4 million. The primary cause of the increased fund balance is bond proceeds held in the Building Fund.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

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

- Revenues – decreased by $0.49 million primarily to reflect federal and state budget actions
- Expenses – decreased about $17.3 million as a result of District-wide budget actions

The District's final budget for the General Fund anticipated that revenues would exceed expenditures by about $8.8 million, and the actual results matched that. Actual revenues were $3.5 million more than anticipated, and expenditures were $3.5 million more than budgeted, from recognizing the STRS on-behalf payment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014-15 the District had invested $24.8 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded $12.6 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014	
Land	$ 176.1	$ 176.1	$ -
Improvement of sites	33.1	34.5	(1.4)
Buildings	327.2	327.0	0.2
Equipment	6.5	6.7	(0.2)
Construction in progress	23.0	9.4	13.6
Total	$ 565.9	$ 553.7	$ 12.2

Long-Term Debt

At year-end the District had $348.0 million in general obligation bonds, compensated absences, other postemployment benefits, workers' compensation claims, and net pension liability – a decrease of 4.9% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2015	2014*	
General obligation bonds	$ 191.0	$ 173.5	$ 17.5
Workers compensation claims	4.0	5.4	(1.4)
Compensated absences	1.3	1.2	0.1
Net pension liability	143.7	179.3	(35.6)
Other postemployment benefits	8.0	6.7	1.3
Total	$ 348.0	$ 366.1	$ (18.1)

** As restated*

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

GASB 68
During the year, the District implemented the new required pension standard known as "GASB 68". The new standard requires government entities across the country to change the method of accounting and reporting for pensions. Before GASB 68, the District reported pension expense based solely on annual contributions to CalSTRS and CalPERS. While the District continues that practice within its governmental funds, there are new requirements for how those expenditures are measured within the "government-wide" financial statements. While the governmental funds continue to use the "modified accrual" basis of accounting, the "government-wide" financial statements use the "full accrual" accounting method. Therefore, pension expense is based on a new measure which requires the District to measure its "proportionate share" of the *expenses, net pension liability, deferred outflows of resources, and deferred inflows of resources* that exist within the CalSTRS and CalPERS pension plans' financial statements. These financial statement elements are unique in that the District has no control over them. The new $143.7 million *net pension liability* represents the District's 0.197% share of the total CalSTRS liability and 0.2517% share of the total CalPERS liability. The impact of this new liability is not felt in the General Fund and does not affect reserves, other than the fact that the employer contribution rates for CalSTRS and CalPERS are projected to increase significantly over the next few years to help reduce the overall pension plan unfunded liabilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Overview

On June 16, 2015, the Governor, the Senate President pro Tempore, and the Speaker of the Assembly announced a budget agreement. The Legislature passed the budget bill and related legislation on Friday, June 19. The budget agreement relies on the administration's May 2015 estimates of (1) General Fund revenues, (2) the Proposition 98 minimum guarantee for schools and community colleges, and (3) budget reserve and debt payment requirements under Proposition 2. School and community college funding is the centerpiece of the agreement, as administration estimates of the Proposition 98 minimum guarantee have increased substantially over June 2014 levels. With savings resulting from (1) rejection of various administration proposals, (2) an error in the administration's Medi-Cal estimates, (3) legislative changes made to the Middle-Class Scholarship Program, and (4) other legislative actions, the agreement makes modest augmentations outside of Proposition 98 above May Revision levels.

2015-16 to End With $4.6 Billion in Estimated Total Reserves
The budget agreement assumes $115 billion in revenues, a 3.3 percent increase over 2014-15. (This total is net of the $1.9 billion deposit in the Proposition 2 Budget Stabilization Account [BSA].) The state's "big three" General Fund taxes—the personal income tax, sales and use tax, and corporation tax—are estimated to increase at a slightly higher rate (4 percent). General Fund revenue growth was much higher in 2014-15, increasing at a very healthy 7.7 percent rate. General Fund spending is largely flat across 2014-15 and 2015-16, increasing at only 0.8 percent. Growth in ongoing programmatic spending, however, is masked by various one-time actions, including one-time spending in 2014-15 on debt payments and mandate backlog claims, and the end of the "triple flip" mechanism used to finance the state's prior deficit financing bonds. The budget ends 2015-16 with $4.6 billion in estimated total reserves, including $1.1 billion in the Special Fund for Economic Uncertainties—the state's traditional budget reserve—and $3.5 billion in the BSA.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98

Substantial Upward Revisions to Estimates of Proposition 98 Minimum Guarantee
State budgeting for preschool, elementary and secondary schools, and the California Community Colleges (CCC) is based primarily on Proposition 98, approved by voters in 1988. Proposition 98 established a minimum funding requirement commonly called the minimum guarantee. The estimate of the 2013-14 and 2014-15 minimum guarantees have increased $612 million and $5.4 billion, respectively from the June 2014 estimates. The estimate of the 2015-16 minimum guarantee is $7.6 billion (12 percent) higher than the *2014-15 Budget Act* level. These increases in the guarantee are due primarily to state revenues being higher than assumed in last year's budget package. The budget package funds at these latest estimates of the minimum guarantees.

Large Upward 2014-15 Adjustments Result in Relatively Modest Year-Over-Year Growth
Growth from the revised 2014-15 level to 2015-16 is $2.1 billion (3 percent). This relatively modest growth is due to the large upward revision to 2014-15 noted above. In 2015-16, total Proposition 98 funding is $68.4 billion. Of this amount, $49.4 billion is General Fund and $19 billion is local property tax revenue. The notable increase in local property tax revenue from 2014-15 to 2015-16 ($2.3 billion, 14 percent) is due in large part to the end of the triple flip and the shift of associated local property tax revenue back from cities, counties, and special districts to school and community college districts. Growth in local property tax revenue is slightly greater than growth in the Proposition 98 minimum guarantee, resulting in a slight reduction in Proposition 98 General Fund from 2014-15 to 2015-16.

Per-Student Funding Increases Significantly
Under the budget package, K-12 per-student funding increases from the *2014-15 Budget Act* level of $8,931 to $9,942 in 2015-16—an increase of $1,011 (11 percent).

Budget Package Contains Many Spending Changes
The budget accounts for higher Local Control Funding Formula (LCFF) costs and uses the remaining funding increase for paying down the K-14 mandate backlog. In addition to these changes, the budget package includes a $256 million settle-up payment related to meeting the Proposition 98 minimum guarantee for 2006-07 and 2009-10 and $207 million in unspent prior-year Proposition 98 funds that have been repurposed.

Package Notably Reduces Outstanding K-14 Obligations
The budget package includes the following K-14 actions, all of which reduce the state's outstanding K-14 obligations.

- ***Pays Down Mandate Backlog.*** The budget package includes $3.8 billion to pay down the K-14 mandate backlog ($3.2 billion is for the K-12 backlog and $632 million for the CCC backlog). After accounting for these payments, the LAO estimates the outstanding K-14 mandate backlog to be $1.5 billion ($1.2 billion for schools and about $300 million for community colleges).
- ***Retires All K-14 Payment Deferrals.*** As required by trailer legislation enacted last year, the budget package provides $992 million to eliminate all remaining K-14 payment deferrals. The budget year will be the first fiscal year since 2000-01 that the state is set to make all K-14 payments on time.
- ***Pays Off Emergency Repair Program (ERP) Obligation.*** The budget includes $273 million for the final ERP payment. Statute requires the state to provide a total of $800 million to school districts for emergency facility repairs, and the state has provided $527 million to date. (Of the $273 million, $145 million comes from a settle-up payment and $128 million comes from unspent prior-year Proposition 98 funds.)

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-12 Education

Large Increase for Local Control Funding Formula (LCFF)
The largest single augmentation in the state budget is $6.0 billion for implementing the LCFF for school districts and charter schools—bringing total LCFF funding to $52 billion. This reflects a 13 percent year-over-year increase in LCFF funding. The administration estimates this funding will close 52 percent of the remaining gap to LCFF target rates. The budget funds 90 percent of the estimated statewide full LCFF implementation cost. School districts and charter schools may use LCFF monies for any educational purpose, including implementation of their Local Control and Accountability Plans.

New Secondary School Career Technical Education (CTE) Competitive Grant Program
The budget package includes $900 million in one-time funding for a three-year competitive grant program to promote high-quality CTE. Of this amount, $400 million is provided in 2015-16, $300 million in 2016-17, and $200 million in 2017-18. School districts, county offices of education (COEs), charter schools, and Regional Occupational Centers and Programs operated by joint powers agencies (JPAs) may apply for grants, individually or in consortia. The program provides separate pools of funding for large, medium-sized, and small applicants, based on applicants' average daily attendance (ADA) in grades 7-12. Specifically, 88 percent of the funding is reserved for applicants with ADA greater than 550, 8 percent is reserved for applicants with ADA between 140 and 550, and 4 percent is reserved for applicants with less than 140 ADA. The Superintendent of Public Instruction (SPI), in collaboration with the executive director of the State Board of Education (SBE), will determine the number of grants to be awarded and specific grant amounts.

Package of Special Education Actions
The budget includes $67 million for a package of special education-related activities. Of the $67 million, $52 million is ongoing and $15 million is one time. The largest ongoing augmentation in this package is for expanding services for infants, toddlers, and preschoolers with disabilities as well as requiring preschool staff training and parent education relating to identifying and meeting preschoolers' special needs. The largest one-time augmentation is for one or two COEs to develop statewide resources and training opportunities for addressing students' diverse instructional and behavioral needs.

Second Round of Internet Infrastructure Grants
The budget includes $50 million in one-time funding for the second round of Broadband Internet Infrastructure Grants. The K-12 High Speed Network is to award grants to schools that cannot administer online tests or can only administer the tests by shutting down other essential online activities such as email. Grants may be used to purchase Internet infrastructure. The Department of Finance (DOF) must approve projects resulting in costs exceeding $1,000 per test-taking pupil.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2015-16 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, 2015

	Total Governmental Activities
ASSETS	
Cash	$ 201,823,618
Investments	2,941,259
Accounts receivable	11,931,618
Inventories	295,579
Non-depreciable assets	199,162,040
Depreciable assets	486,961,264
Less, accumulated depreciation	(120,169,311)
Total assets	782,946,067
DEFERRED OUTFLOWS OF RESOURCES	
Amounts contributed after the measurement date	16,453,967
Change in proportion	322,764
Deferred amount on refunding	1,644,774
Total deferred outflows	18,421,505
LIABILITIES	
Current liabilities:	
Accounts payable	16,803,542
Unearned revenue	395,975
Long-term liabilities	
Due or payable within one year	6,955,521
Due or payable after one year	341,000,168
Total liabilities	365,155,206
DEFERRED INFLOWS OF RESOURCES	
Differences between projected and actual earnings on pension plan investments	38,166,673
NET POSITION	
Net investment in capital assets	415,038,663
Restricted for:	
Capital projects	78,555,997
Debt service	9,196,463
Categorical programs	16,099,394
Workers' compensation claims	7,153,814
Unrestricted	(127,998,638)
Total net position	$ 398,045,693

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instructional services:				
Instruction	$ 125,158,641	$ 2,447	$ 22,144,899	$ (103,011,295)
Instruction-related services:				
Supervision of instruction	8,093,857	700	3,021,619	(5,071,538)
Instructional library, media and technology	1,278,861	-	279,602	(999,259)
School site administration	12,818,112	146	370,593	(12,447,373)
Pupil support services:				
Home-to-school transportation	3,609,926	-	-	(3,609,926)
Food services	7,646,062	1,858,636	5,301,765	(485,661)
All other pupil services	11,164,086	671	3,852,214	(7,311,201)
General administration services:				
Data processing services	1,823,308	-	7,221	(1,816,087)
Other general administration	5,510,465	37	1,404,502	(4,105,926)
Plant services	24,519,146	19,581	1,320,554	(23,179,011)
Ancillary services	1,079,892	-	1,060,310	(19,582)
Community services	1,196,674	-	5,239	(1,191,435)
Interest on long-term debt	5,831,893	34,006	-	(5,797,887)
Other outgo	2,754,324	-	2,012,164	(742,160)
Depreciation (unallocated)	12,604,852	-	-	(12,604,852)
Total Governmental Activities	$ 225,090,099	$ 1,916,224	$ 40,780,682	(182,393,193)

General Revenues:	
Property taxes	113,619,004
Federal and state aid not restricted to specific purpose	69,064,717
Interest and investment earnings	468,923
Miscellaneous	9,376,385
Total general revenues	192,529,029
Change in net position	10,135,836
Net position - July 1, 2014, as originally stated	542,083,914
Adjustments for restatement (Note 1.I.)	(169,060,576)
Adjustments for restatement (Note 13)	14,886,519
Net position - July 1, 2014, as restated	387,909,857
Net position - June 30, 2015	$ 398,045,693

TUSTIN UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2015

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$ 73,332,374	$ 26,534,126	$ 51,612,009	$ 50,345,109	$ 201,823,618
Investments	-	-	-	2,941,259	2,941,259
Accounts receivable	8,007,332	10,168	1,928,269	1,761,145	11,706,914
Due from other funds	492,452	23	-	1,002,900	1,495,375
Inventories	269,798	-	-	25,781	295,579
Total Assets	$ 82,101,956	$ 26,544,317	$ 53,540,278	$ 56,076,194	$ 218,262,745
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 10,692,330	$ 569,757	$ 1,913,627	$ 614,995	$ 13,790,709
Due to other funds	1,002,631	-	-	492,744	1,495,375
Unearned revenue	395,975	-	-	-	395,975
Total Liabilities	12,090,936	569,757	1,913,627	1,107,739	15,682,059
Fund Balances					
Nonspendable	419,798	-	-	25,781	445,579
Restricted	12,561,086	25,974,560	51,626,651	54,942,674	145,104,971
Assigned	31,500,437	-	-	-	31,500,437
Unassigned	25,529,699	-	-	-	25,529,699
Total Fund Balances	70,011,020	25,974,560	51,626,651	54,968,455	202,580,686
Total Liabilities and Fund Balances	$ 82,101,956	$ 26,544,317	$ 53,540,278	$ 56,076,194	$ 218,262,745

TUSTIN UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

Total fund balances - governmental funds			$ 202,580,686
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	686,123,304	
	Accumulated depreciation	(120,169,311)	
	Net:		565,953,993
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(3,012,833)
Deferred amounts of refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:			1,644,774
In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned.			224,704
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	General obligation bonds	190,956,532	
	Net pension liability	143,694,969	
	Workers' compensation claims	4,085,152	
	Compensated absences	1,266,931	
	Other postemployment benefits	7,952,105	
			(347,955,689)
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. Deferred outflows and inflows of resources relating to pensions consist of:			
	Deferred outflows	16,776,731	
	Deferred inflows	(38,166,673)	
			(21,389,942)
Total net position - governmental activities			$ 398,045,693

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	$ 163,388,492	$ -	$ -	$ -	$ 163,388,492
Federal sources	8,968,769	-	-	6,527,440	15,496,209
Other state sources	27,985,410	-	-	1,955,297	29,940,707
Other local sources	8,250,824	74,255	205,386	16,842,451	25,372,916
Total Revenues	208,593,495	74,255	205,386	25,325,188	234,198,324
EXPENDITURES					
Current:					
Instruction	124,664,456	-	-	744,158	125,408,614
Instruction-related services:					
Supervision of instruction	8,184,961	-	-	14,285	8,199,246
Instructional library, media and technology	1,015,872	-	-	-	1,015,872
School site administration	13,025,312	-	-	124,637	13,149,949
Pupil support services:					
Home-to-school transportation	3,613,325	-	-	-	3,613,325
Food services	1,232	-	-	7,917,426	7,918,658
All other pupil services	11,504,893	-	-	68,596	11,573,489
Ancillary services	1,079,836	-	-	-	1,079,836
Community services	363,876	-	-	831,379	1,195,255
Enterprise activities	-	-	-	5,203	5,203
General administration services:					
Data processing services	1,858,692	-	-	-	1,858,692
Other general administration	6,828,421	-	-	96,095	6,924,516
Plant services	20,451,412	-	-	20	20,451,432
Transfers of indirect costs	(411,179)	-	-	411,179	-
Capital Outlay	6,141,261	7,618,984	36,346	13,025,485	26,822,076
Intergovernmental transfers	2,532,593	-	-	-	2,532,593
Debt Service:					
Interest	-	-	-	5,600,865	5,600,865
Principal	-	-	-	7,017,259	7,017,259
Issuance costs	-	166,994	-	518,531	685,525
Total Expenditures	200,854,963	7,785,978	36,346	36,375,118	245,052,405
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,738,532	(7,711,723)	169,040	(11,049,930)	(10,854,081)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	4,795,021	4,795,021
Interfund transfers out	(4,795,021)	-	-	-	(4,795,021)
Proceeds from issuance of bonds	-	20,000,000	-	23,795,000	43,795,000
Payment to escrow agent for defeased debt	-	-	-	(28,645,416)	(28,645,416)
Premiums from issuance of debt	-	-	-	5,963,639	5,963,639
Total Other Financing Sources and Uses	(4,795,021)	20,000,000	-	5,908,244	21,113,223
Net Change in Fund Balances	2,943,511	12,288,277	169,040	(5,141,686)	10,259,142
Fund Balances, July 1, 2014, as originally stated	67,067,509	13,686,283	51,457,611	45,223,622	177,435,025
Adjustments for Restatement (Note 13)	-	-	-	14,886,519	14,886,519
Fund Balances, July 1, 2014	67,067,509	13,686,283	51,457,611	60,110,141	192,321,544
Fund Balances, June 30, 2015	$ 70,011,020	$ 25,974,560	$ 51,626,651	$ 54,968,455	$ 202,580,686

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, 2015

Total net change in fund balances - governmental funds		$ 10,259,142
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	24,832,751	
Depreciation expense	(12,604,852)	
Net		12,227,899
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:		(15,809)
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:		31,420,857
In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, including premiums, were:		(49,758,639)
In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period that it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:		1,725,352
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:		(488,839)
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:		(886,958)
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:		(16,199)
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:		(1,220,020)
The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on the refunding and are amortized over the life of the liability. Deferred amounts on refunding exceeded the amount amortized during the year by:		1,644,774
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		3,983,564
In the statement of activities, certain liabilities such as compensated absences and workers' compensation claims liabilities, are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*).		1,260,712
Change in net position of governmental activities		$ 10,135,836

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2015

	Agency Funds						
	Student Body Funds		IRC Section 125 Fund		Debt Service Fund for Special Tax Bonds		Totals
Assets							
Cash	$	730,346	$	40,000	$	12,455,131	$ 13,225,477
Investments		-		-		23,004,980	23,004,980
Inventories		22,630		-		-	22,630
Prepaid expenses		8,008		-		-	8,008
Total Assets	$	760,984	$	40,000	$	35,460,111	$ 36,261,095
Liabilities							
Due to student groups	$	727,094	$	-	$	-	$ 727,094
Accounts payable		33,890		-		-	33,890
Due to employees		-		40,000		-	40,000
Due to bondholders		-		-		35,460,111	35,460,111
Total Liabilities	$	760,984	$	40,000	$	35,460,111	$ 36,261,095

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Major Governmental Funds
The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

Special Revenue Funds:

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Measurement Focus, Basis of Accounting

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

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

3. Revenues - Exchange and Non-Exchange Transactions
Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

1. 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. Unearned Revenue
Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

4. 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 three items that qualify for reporting in this category. The first item is to recognize contributions made to the pension plan after the measurement date of the net pension liability. The second is to recognize the differences in proportions for the net pension liability. The third is deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

5. 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Fund Balances

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

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

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

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

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

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

8. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Net Position (continued)

- **Restricted -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

F. Minimum Fund Balance Policy

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

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

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

G. Property Tax Calendar

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

H. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

During the 2014-15 fiscal year, the following GASB Pronouncements became effective:

1. **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.

   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.

2. **Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68 (Issued 11/13)***

   The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. Statement No. 71 (continued)
Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net position liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

3. Cumulative Effect of Change in Accounting Principle
Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards was to decrease the net position at July 1, 2013 by $169,060,576, which is the amount of net pension liability, net of the deferred outflows of resources related to pensions at July 1, 2014.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2015, are reported at fair value and consisted of the following:

	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:		
Cash in county treasury	$ 201,513,618	$ 12,455,131
Total Pooled Funds	201,513,618	12,455,131
Deposits:		
Cash on hand and in banks	160,000	730,346
Cash in revolving fund	150,000	40,000
Total Deposits	310,000	770,346
Total Cash	$ 201,823,618	$ 13,225,477
Investments:		
US Bank money market funds	$ 2,941,259	23,004,942
Union Bank money market funds	-	38
Total Investments	$ 2,941,259	$ 23,004,980

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, 2015, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

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

NOTE 2 – CASH AND INVESTMENTS (continued)

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

As of June 30, 2015, $1,047,899 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, 2015, consist of the following:

		Maturity	
	Fair Value	Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank:			
U.S. Treasury Money Market Funds	$ 25,946,201	$ 25,946,201	$ -
Union Bank Money Market Funds	38	38	-
Total Investments	$ 25,946,239	$ 25,946,239	$ -

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, 2015, 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, 2015, the District had the following investments that represents more than five percent of the District's net investments.

US Bank Money Market Fund	99.9%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	$ 3,052,263	$ -	$ -	$ 175,936	$ 3,228,199
Food service	-	-	-	886,755	886,755
State Government:					
Lottery	2,133,224	-	-	-	2,133,224
Categorical aid programs	2,214,311	-	-	457,588	2,671,899
Other state	12,602	-	-	172,743	185,345
Local:					
Interest	34,514	10,168	17,133	7,957	69,772
Other local	391,946	-	1,911,096	57,557	2,360,599
Miscellaneous	168,472	-	40	2,609	171,121
Total	$ 8,007,332	$ 10,168	$ 1,928,269	$ 1,761,145	$ 11,706,914

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2015, consisted of the following:

General Fund due to Cafeteria Fund to correct UI and for reimbursement of costs	$ 2,608
General Fund due to Building Fund for reimbursement of costs	23
Cafeteria Fund due to General Fund for indirect costs, health and welfare, and other operating costs	416,970
General Fund due to Special Reserve Fund for Capital Outlay Projects for special reserve transfer	1,000,000
Child Development Fund due to Cafeteria Fund for reimbursement of costs	336
Child Development Fund due to General Fund for benefits, transportation, school readiness, indirect costs and other operating costs	75,438
Total	$ 1,495,375

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2015, consisted of the following:

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for redevelopment fees	$ 4,795,021

NOTE 5 – FUND BALANCES

At June 30, 2015, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	$ 150,000	$ -	$ -	$ -	$ 150,000
Stores inventories	269,798	-	-	25,781	295,579
Total Nonspendable	419,798	-	-	25,781	445,579
Restricted:					
Categorical programs	12,561,086	-	-	-	12,561,086
Child development programs	-	-	-	622,530	622,530
Food service program	-	-	-	2,889,997	2,889,997
Capital projects	-	25,974,560	51,626,651	35,079,870	112,681,081
Debt service	-	-	-	9,196,463	9,196,463
Workers' compensation claims	-	-	-	7,153,814	7,153,814
Total Restricted	12,561,086	25,974,560	51,626,651	54,942,674	145,104,971
Assigned:					
Adult education program	62,700	-	-	-	62,700
Deferred maintenance program	4,909,525	-	-	-	4,909,525
Other assignments	4,991,489	-	-	-	4,991,489
Benefit accounts	140,000	-	-	-	140,000
Accrued vacation liability	1,266,931	-	-	-	1,266,931
LCFF Uncertainty reserves	12,471,565	-	-	-	12,471,565
ERRP reserves	214,968	-	-	-	214,968
Facilities maintenance reserves	2,758,298	-	-	-	2,758,298
Technology refresh reserves	2,500,000	-	-	-	2,500,000
Classroom furniture	750,000	-	-	-	750,000
Future school opening	500,000	-	-	-	500,000
Carryovers for schools and local programs	934,961	-	-	-	934,961
Total Assigned	31,500,437	-	-	-	31,500,437
Unassigned:					
Reserve for economic uncertainties	25,529,699	-	-	-	25,529,699
Total Unassigned	25,529,699	-	-	-	25,529,699
Total	$ 70,011,020	$ 25,974,560	$ 51,626,651	$ 54,968,455	$ 202,580,686

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance, July 1, 2014	Additions	Retirements	Balance, June 30, 2015
Capital assets not being depreciated:				
Land	$ 176,147,527	$ -	$ -	$ 176,147,527
Construction in progress	9,437,322	19,235,293	5,658,102	23,014,513
Total capital assets not being depreciated	185,584,849	19,235,293	5,658,102	199,162,040
Capital assets being depreciated:				
Improvement of sites	44,011,966	501,136	-	44,513,102
Buildings	413,936,837	9,735,727	-	423,672,564
Equipment	18,120,735	1,018,697	363,834	18,775,598
Total capital assets being depreciated	476,069,538	11,255,560	363,834	486,961,264
Accumulated depreciation for:				
Improvement of sites	(9,512,017)	(1,924,271)	-	(11,436,288)
Buildings	(86,953,099)	(9,468,200)	-	(96,421,299)
Equipment	(11,447,368)	(1,212,381)	(348,025)	(12,311,724)
Total accumulated depreciation	(107,912,484)	(12,604,852)	(348,025)	(120,169,311)
Total capital assets being depreciated, net	368,157,054	(1,349,292)	15,809	366,791,953
Governmental activity capital assets, net	$ 553,741,903	$ 17,886,001	$ 5,673,911	$ 565,953,993

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2015, were as follows:

	Balance, July 1, 2014*	Additions	Deductions	Balance, June 30, 2015	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	$ 160,454,645	$ 43,795,000	$ 31,420,857	$ 172,828,788	$ 5,495,496
Accreted Interest	5,029,160	1,396,101	509,143	5,916,118	744,504
Unamortized Issuance Premium	7,973,339	5,963,639	1,725,352	12,211,626	715,521
Total - GO Bonds	173,457,144	51,154,740	33,655,352	190,956,532	6,955,521
Workers' Compensation Claims	5,447,901	-	1,362,749	4,085,152	-
Compensated Absences	1,164,894	102,037	-	1,266,931	-
Other Postemployment Benefits	6,732,085	1,220,020	-	7,952,105	-
Net Pension Liability	179,258,501	-	35,563,532	143,694,969	-
Totals	$ 366,060,525	$ 52,476,797	$ 70,581,633	$ 347,955,689	$ 6,955,521

** Beginning balance amount has been restated to reflect the retroactive implementation of GASB Statement No.68 for the net pension liability.*

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.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

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

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

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

Measure S
On November 6, 2012, a special election of the registered voters was held in School Facilities Improvement District No. 2012-1, at which more than the required 55 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, 2015, there was no principal balance outstanding on the defeased debt.

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

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

2015 Refunding General Obligation Bonds (continued)
The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2015 of $1,644,774 remain to be amortized for this refunding. As of June 30, 2015, the principal balance outstanding on the defeased debt amounted to $25,820,000.

The refunding decreased the District's total debt service payments by $3,353,512. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of $2,717,032.

Below is a schedule of bonds issued and outstanding as of June 30, 2015.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2014	Additions	Deductions	Balance, June 30, 2015
Measure G:								
2002B	6/15/2006	2031	4.25% - 5.12%	$ 17,350,000	$ 9,480,000	$ -	$ 9,080,000	$ 400,000
2002C	5/1/2008	2032	4.00% - 5.00%	22,649,972	18,841,089	-	17,610,539	1,230,550
2002D	3/10/2010	2034	6.00% - 6.90%	24,998,556	24,998,556	-	405,318	24,593,238
Measure L:								
2008A	3/30/2010	2034	3.00% - 6.589%	25,000,000	22,135,000	-	605,000	21,530,000
2008B	6/9/2011	2037	2.00% - 5.00%	25,000,000	25,000,000	-	35,000	24,965,000
2008C	5/8/2014	2042	2.00% - 4.00%	25,000,000	25,000,000	-	1,000,000	24,000,000
2008D	2/18/2015	2035	3.0% - 3.375%	20,000,000	-	20,000,000	-	20,000,000
Measure S:								
2012A	3/14/2014	2037	2.0% - 5.0%	35,000,000	35,000,000	-	2,465,000	32,535,000
Refunding Bonds:								
Refunding	1/28/2015	2032	2.0% - 5.0%	23,795,000	-	23,795,000	220,000	23,575,000
				$ 218,793,528	$ 160,454,645	$ 43,795,000	$ 31,420,857	$ 172,828,788

Accreted Interest:	Balance, July 1, 2014	Additions	Deductions	Balance, June 30, 2015
2002C	$ 1,164,495	$ 265,030	$ 404,461	$ 1,025,064
2002D	3,864,665	1,131,071	104,682	4,891,054
	$ 5,029,160	$ 1,396,101	$ 509,143	$ 5,916,118

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
2015-16	$ 5,495,496	$ 7,971,102	$ 13,466,598
2016-17	5,068,038	7,945,683	13,013,721
2017-18	5,166,211	7,872,385	13,038,596
2018-19	6,085,680	7,266,966	13,352,646
2019-20	4,376,135	7,157,636	11,533,771
2020-25	29,004,736	38,705,114	67,709,850
2025-30	40,322,492	28,873,768	69,196,260
2030-35	46,220,000	12,781,686	59,001,686
2035-40	22,480,000	3,307,772	25,787,772
2040-43	8,610,000	485,338	9,095,338
Total	$ 172,828,788	$ 122,367,450	$ 295,196,238

B. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $249,417,500 as of June 30, 2015, 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.

NOTE 8 – JOINT VENTURES (continued)

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

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

	ASCIP June 30, 2015 (Unaudited)
Total Assets	$ 362,899,069
Total Liabilities	205,813,855
Net Position	$ 157,085,214
Total Revenues	$ 227,006,438
Total Expenditures	214,534,538
Change in Net Assets	$ 12,471,900

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, 2015, the District had commitments with respect to unfinished capital projects of approximately $18.0 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, 2015.

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, 2015, 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 2014-15, 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, 2013 to June 30, 2015:

	Workers' Compensation
Liability Balance, July 1, 2013	$ 5,447,901
Claims and changes in estimates	5,585
Claims payments	(5,585)
Liability Balance, June 30, 2014	5,447,901
Claims and changes in estimates	(1,357,546)
Claims payments	(5,203)
Liability Balance, June 30, 2015	$ 4,085,152
Assets available to pay claims at June 30, 2015	$ 7,153,814

NOTE 11 – PENSION PLANS

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

A. General Information about the Pension Plans

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

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

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

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

NOTE 11 – PENSION PLANS (continued)

A. General Information about the Pension Plans (continued)

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

Contributions
Active CalSTRS plan members were required to contribute 8.15% of their salary in 2014-15. The required employer contribution rate for fiscal year 2014-15 was 8.88% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2014-15 was 11.771%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	CalSTRS	CalPERS
Employer contributions	$ 13,105,130	$ 3,348,567
Employee contributions paid by employer	$ -	$ -

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
CalSTRS	$ 115,120,890
CalPERS	28,574,079
Total Net Pension Liability	$ 143,694,969

NOTE 11 – PENSION PLANS (continued)

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

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014, was as follows:

	CalSTRS*	CalPERS
Proportion - June 30, 2013	0.197%	0.249%
Proportion - June 30, 2014	0.197%	0.252%
Change - Increase (Decrease)	0.000%	0.003%

* The District's proportionate share percentage was not separately determined for June 30, 2013, so the June 30, 2014, percentage was used to calculate the beginning amounts.

For the year ended June 30, 2015, the District recognized pension expense of $12,478,302. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 16,453,697	$ -
Adjustment due to differences in proportions	322,764	-
Net differences between projected and actual earnings on plan investments	-	(38,166,673)
	$ 16,776,461	$ (38,166,673)

NOTE 11 – PENSION PLANS (continued)

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

The total amount of $16,453,967 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount	
2016	$	(8,043,562)
2017	$	(8,043,562)
2018	$	(8,043,562)
2019	$	-
2020	$	-
Thereafter	$	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2013, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.50%
Inflation	3.00%	2.75%
Wage Growth	3.75%	3.00%
Post-retirement Benefit Increase	2.00%	-
Investment Rate of Return	7.60%	7.50%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2013, valuation were based on the results of a January 2014, actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

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

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate – for CalSTRS (continued)
Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate – for CalPERS
The discount rate used to measure the total pension liability was 7.50% for CalPERS. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate – for CalPERS (continued)
The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

	Target Allocation		Long-Term Expected Rate of Return	
Asset Class	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	47%	4.5%	5.7%
Global Fixed Income	N/A	19%	N/A	2.4%
Inflation Sensitive	5%	6%	3.2%	3.4%
Private Equity	12%	12%	6.2%	7.0%
Real Estate	15%	11%	4.4%	5.1%
Infrastructure and Forestland	N/A	3%	N/A	5.1%
Fixed Income	20%	N/A	0.2%	N/A
Liquidity	1%	2%	0.0%	-1.1%
	100%	100%		

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.60%	6.50%
Net Pension Liability	$ 179,443,360	$ 50,125,456
Current Discount Rate	7.60%	7.50%
Net Pension Liability	$ 115,120,890	$ 28,574,079
1% Increase	8.60%	8.50%
Net Pension Liability	$ 61,487,640	$ 10,565,730

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

NOTE 11 – PENSION PLANS (continued)

C. Payable to the Pension Plans

At June 30, 2015, the District reported a payable of $829,696 and $283,614 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2015.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees receiving benefits*	72
Active plan members*	1,377
Total	1,449

** As of March 1, 2015 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.

	Certificated *	**Classified ***
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 2014-15, the District contributed $1,090,412.

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.

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)	$ 2,340,410
Interest on net OPEB obligation	302,944
Adjustment to ARC	(332,922)
Annual OPEB cost	2,310,432
Contributions made	(1,090,412)
Increase (decrease) in net OPEB obligation	1,220,020
Net OPEB obligation - July 1, 2014	6,732,085
Net OPEB obligation - June 30, 2015	$ 7,952,105

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014-15 and the preceding two years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2013	$ 2,806,696	37.1%	$ 4,876,765
2014	$ 2,816,811	34.5%	$ 6,732,085
2015	$ 2,310,432	47.2%	$ 7,952,105

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

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

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

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions (continued)

Additional information as of the latest actuarial valuation follows:

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

NOTE 13 – ADJUSTMENTS FOR RESTATEMENT

The beginning fund balance of Non-Major Funds in the Statement of Revenues, Expenditures and Changes in Fund Balances has been restated by $14,886,519 to record the beginning balance in a capital projects fund for blended component units that was previously recorded in a fiduciary fund for debt service for component units. In addition, there is the restatement required for the implementation of GASB No. 68 for ($169,060,576) which is described in further detail in Note 1.I.

Required Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual*	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
LCFF sources	$ 162,771,605	$ 158,529,664	$ 158,529,664	$ -
Federal sources	8,802,828	9,101,970	8,968,769	(133,201)
Other State sources [1]	21,909,790	24,039,063	27,962,793	3,923,730
Other Local sources	7,138,840	8,467,026	8,227,846	(239,180)
Total Revenues	200,623,063	200,137,723	203,689,072	3,551,349
Expenditures				
Current:				
Certificated salaries	97,604,355	96,220,100	96,145,057	75,043
Classified salaries	31,533,637	30,940,333	30,924,692	15,641
Employee benefits [1]	39,721,439	36,424,298	41,036,674	(4,612,376)
Books and supplies	13,364,130	7,061,647	6,234,980	826,667
Services and other operating expenditures	22,460,690	18,032,652	17,888,978	143,674
Transfers of indirect cost	(391,428)	(411,179)	(411,179)	-
Capital outlay	968,000	484,198	484,196	2
Intergovernmental transfers	3,346,347	2,532,593	2,532,593	-
Total Expenditures	208,607,170	191,284,642	194,835,991	(3,551,349)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,984,107)	8,853,081	8,853,081	-
Other Financing Sources and Uses				
Interfund Transfers Out	(1,450,257)	(5,795,021)	(5,795,021)	-
Total Other Financing Sources and Uses	(1,450,257)	(5,795,021)	(5,795,021)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(9,434,364)	3,058,060	3,058,060	-
Fund Balances, July 1, 2014	58,052,243	56,989,246	56,989,246	-
Fund Balances, June 30, 2015	$ 48,617,879	$ 60,047,306	$ 60,047,306	$ -

* 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.

[1] STRS on behalf payments of $4,650,400 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. The excess amount is from the revenues and payments not being considered when developing the budget.

TUSTIN UNIFIED SCHOOL DISTRICT

Schedule of Funding Progress

For the Fiscal Year Ended June 30, 2015

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

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2015

Last Ten Fiscal Years*

	2014
District's proportion of the net pension liability (asset):	
CalSTRS	0.1970%
CalPERS	0.2520%
District's proportionate share of the net pension liability (asset):	
CalSTRS	$ 115,120,890
CalPERS	$ 28,574,079
District's covered-employee payroll:	
CalSTRS	$ 88,358,545
CalPERS	$ 26,511,816
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll:	
CalSTRS	130.3%
CalPERS	107.8%
Plan fiduciary net position as a percentage of the total pension liability:	
CalSTRS	76.5%
CalPERS	83.4%

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

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Contributions
For the Fiscal Year Ended June 30, 2015

Last Ten Fiscal Years*

		2014
Actuarially determined contribution:		
CalSTRS	$	7,289,580
CalPERS	$	3,033,482
Contributions in relation to the actuarially determined contribution:		
CalSTRS	$	7,289,580
CalPERS	$	3,033,482
Contribution deficiency (excess):		
CalSTRS	$	-
CalPERS	$	-
District's covered-employee payroll:		
CalSTRS	$	88,358,545
CalPERS	$	26,511,816
Contributions as a percentage of covered-employee payroll:		
CalSTRS		8.25%
CalPERS		11.442%

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

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Contributions

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

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2015, the District incurred the following excess of expenditures over appropriations in the individual major funds presented in the Budgetary Comparison Schedule:

Expenditure	General Fund
Employee Benefits*	$ 4,612,376

* The excess of expenditures over appropriations for employee benefits is due to booking the STRS on-behalf revenues and payments, which were not taken into consideration when developing the budget.

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Supplementary Information

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

GOVERNING BOARD

Member	Office	Term Expires
Francine Scinto	President	November, 2016
Lynn Davis	Vice President	November, 2018
Jonathan Abelove	Clerk	November, 2018
James Laird	Member	November, 2016
Tammie Bullard	Member	November, 2016

DISTRICT ADMINISTRATORS

Gregory A. Franklin, Ed.D.,
Superintendent

Charles Lewis, Ed.D.,
Chief Personnel Officer

Kathie Nielsen,
Chief Academic Officer

Anthony Soria,
Chief Financial Officer

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

Crystal Turner,
Assistant Superintendent, Administrative Services

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2015

	Second Period Report	Annual Report
	Certificate No. (F9393BF3)	Certificate No. (9F904132)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	6,655.41	6,658.40
Fourth through Sixth	5,511.29	5,510.25
Seventh through Eighth	3,678.78	3,675.36
Ninth through Twelfth	7,423.12	7,382.23
Total Regular ADA	23,268.60	23,226.24
Special Education, Nonpublic, Nonsectarian Schools:		
Fourth through Sixth	1.11	2.04
Seventh through Eighth	1.48	2.20
Ninth through Twelfth	7.61	8.34
Total Special Education, Nonpublic, Nonsectarian Schools	10.20	12.58
Total ADA	23,278.80	23,238.82

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2015

	1986-87 Minutes		2014-15	Number of Days	
Grade Level	Previously Required	Reduced*	Actual Minutes	Traditional Calendar	Status
Kindergarten	36,000	35,000	36,540	180	Complied
Grade 1	50,400	49,000	50,929	180	Complied
Grade 2	50,400	49,000	50,929	180	Complied
Grade 3	50,400	49,000	50,929	180	Complied
Grade 4	54,000	52,500	54,514	180	Complied
Grade 5	54,000	52,500	54,514	180	Complied
Grade 6	54,000	52,500	59,037	180	Complied
Grade 7	54,000	52,500	59,037	180	Complied
Grade 8	54,000	52,500	59,037	180	Complied
Grade 9	64,800	63,000	70,636	180	Complied
Grade 10	64,800	63,000	70,636	180	Complied
Grade 11	64,800	63,000	70,636	180	Complied
Grade 12	64,800	63,000	70,636	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, 2015

General Fund	(Budget) 2015 [3]	2015 [5]	2014	2013
Revenues and other financing sources	$ 212,123,102	$ 203,689,072	$ 178,987,600	$ 172,945,190
Expenditures	216,294,046	194,835,991	175,309,782	163,111,924
Other uses and transfers out	3,112,971	5,795,021	2,701,596	4,486,952
Total outgo	219,407,017	200,631,012	178,011,378	167,598,876
Change in fund balance (deficit)	(7,283,915)	3,058,060	976,222	5,346,314
Ending fund balance	$ 52,763,391	$ 60,047,306	$ 56,989,246	$ 56,013,024
Available reserves [1]	$ 6,582,211	$ 25,529,699	$ 21,595,214	$ 28,128,604
Available reserves as a percentage of total outgo	3.0%	12.7%	12.1%	16.8%
Total long-term debt [4]	$ 341,000,168	$ 347,955,689	$ 366,060,525	$ 188,051,959
Average daily attendance at P-2 [2]	23,400	23,279	23,259	23,134

The General Fund balance has increased by approximately $4.0 million over the past two years. The fiscal year 2015-16 adopted budget projects a decrease of approximately $7.3 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 2015-16 fiscal year. Long-term debt has increased by $160.0 million over the past two years.

Average daily attendance has increased by 145 over the past two years. The District projects an increase of 121 ADA in 2015-16.

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

[2] Excludes Adult Education ADA and ROC/P ADA.

[3] Budget as of September 2015.

[4] As restated.

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

TUSTIN UNIFIED SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2015

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	$ 37,420	
School Breakfast Program - Especially Needy	10.553	13526	1,171,076	
National School Lunch Program	10.555	13523	3,426,122	
Summer Food Service Program Operations	10.559	13004	20,245	
USDA Donated Foods	10.555	N/A	488,356	
Total Child Nutrition Cluster				$ 5,143,219
Child Care Food Program Cluster:				
CCFP Claims Centers and Family Day Care Homes	10.558	13394	426,712	
CCFP Cash in Lieu of Commodities	10.558	13389	35,440	
Total Child Care Food Program Cluster				462,152
Total U.S. Department of Agriculture				5,605,371
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	2,579,947	
Title I, Part A, Program Improvement Corrective Action	84.010	14955	450,000	
Total Title I, Part A Cluster				3,029,947
Title I, Part G, Advance Placement Testing	84.330B	14831		24,421
Title II, Part A, Teacher Quality Local	84.367	14341		366,518
Title III, English Language Acquisition Grants Cluster				
Title III, Immigrant Education Program	84.365	15146	22,900	
Title III, Limited English Proficiency	84.365	14346	711,203	
Total English Language Grants Cluster				734,103
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster (IDEA)				
Local Assistance Entitlement	84.027	13379	3,255,008	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	69,250	
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,029	
Preschool Local Entitlement, Part B	84.027A	13682	316,817	
Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	267,054	
Total Special Education (IDEA) Cluster				3,909,158
IDEA Early Intervention Grant, Part C	84.181	23761		61,210
Carl Perkins Act - Secondary	84.048	14894		139,613
Total U.S. Department of Education				8,264,970
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education (CDE):				
Medi-Cal Administrative Activities (MAA)	93.778	10060		703,799
Child Development				
CCDF Discretionary General Child Care FF	93.575	15136	149,729	
Child Care Mandatory and Matching funds - Child Care and Development Fund	93.596	13609	272,149	
Total Child Development				421,878
Total U.S. Department of Health & Human Services				1,125,677
Total Expenditures of Federal Awards				$ 14,996,018

TUSTIN UNIFIED SCHOOL DISTRICT

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2015

	Capital Projects Fund for Blended Component Units
June 30, 2015, annual financial and budget report (SACS) fund balances	$ 7,256,153
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Additional capital projects funds	894,371
June 30, 2015, audited financial statement fund balances	$ 8,150,524

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.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual financial report to the audited financial statements.

Schedule of Expenditures of Federal Awards
The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the 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.

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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, 2015, and the related notes to the financial statements, which collectively comprise Tustin Unified School District's basic financial statements, and have issued our report thereon dated December 11, 2015.

Internal Control Over Financial Reporting

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

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

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

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tustin Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2015-1.

Tustin Unified School District's Response to Findings

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

Purpose of this Report

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

Nigro & Nigro, PC

Murrieta, California
December 11, 2015

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Tustin Unified School District
Tustin, California

Report on State Compliance
We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Tustin Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2015.

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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Tustin Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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

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

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

Unmodified Opinion on Compliance with State Programs
In our opinion, Tustin Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Nigro & Nigro, PC

Murrieta, California
December 11, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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, 2015. 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, 2015.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2015-1. Our opinion on each major federal program is not modified with respect to this matter.

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

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.

Nigro & Nigro, PC

Murrieta, California
December 11, 2015

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.365	English Language Acquisition Grants Cluster
10.555, 10.556, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 449,881
Auditee qualified as low-risk auditee?	Yes

State Awards

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

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2014-15.

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 2015-1: 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)
Summer Food Program (CFDA No. 10.559)

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, 2015, fund balance in the Cafeteria Fund was $2,915,780, which exceeds the average of three months expenditures by $967,600. This is an improvement of $727,284 over the prior year finding.

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, 2015, expenditures exceeded revenues by $861,004, 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.

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 2014-15.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2014-1: National School Lunch Program OPEB Cost Allocations	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. The District charged retirees who worked under the Food service program directly to the Child Nutrition programs.	50000	We recommend the District allocate retiree OPEB costs across all activities broadly, as required by federal guidelines.	Implemented.
Finding 2014-2: Cafeteria Fund Cash Reserves	The school food authority should limit its net cash resources to an amount that does not exceed three months average expenditures in accordance with 7 CFR Section 210.14(b). At June 30, 2015, fund balance in the Cafeteria Fund was $3,776,782, which exceeds the average of three months expenditures by $1,694,884.	50000	We recommend the District submit a spending plan to the CDE and obtain approval in spending the excess of allowable funds.	Partially Implemented. See Finding 2015-1.

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A PROFESSIONAL ACCOUNTANCY CORPORATION

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, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 11, 2015 on the financial statements of Tustin Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation: At ***Foothill*** and ***Beckman High,*** we found accounts that are not appropriate ASB accounts. The schools had accounts titled "District", "Donation to Charity", "AP Exams", and "Transcripts". ASB accounts are not and should not be used as pass-through or clearing accounts for District funds. Accepting the District funds into the ASB account is also considered commingling of funds.

Recommendation: We recommend that the site forward all District funds to the District Office for receipt or open a separate clearing account for funds to be transferred to the District on a monthly basis. Donations to charity should follow specific guidelines which include clearly identifying the charity. In the best case scenario, checks should be made payable to the charity and should be delivered or picked up directly by the outside organization. If this is not possible, a trust account should be opened with board approval, specifically identified and then closed out once the fundraiser is over.

Observation: In addition to expenditures in relation to inappropriate accounts above, we noted expenditures at ***Foothill High*** included costs for software, athletic fields, library remodel and payment to a charity. At ***Columbus Middle***, several shirts were given to District employees as a 'thank you' gesture. Education Code section 48930 states that the purpose of ASB is to conduct activities on behalf of the students, while these expenditures appear to be the responsibility of the District. ASB funds are legally considered public funds because they are raised through the district's tax identification number and under its nontaxable status and gifts are not permitted.

Recommendation: We recommend the District investigate these costs and reimburse the ASB where appropriate. However, a student group may organize a fund-raiser to support a charity as long as the event is clearly identified as raising funds to donate to that charity. All donations should be in the form of checks made payable to the charity and should be picked up or delivered to the charity.

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ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

***Observation**:* During our test of cash disbursements, we noted the following exceptions:

- ***Beckman High:*** Two credit card payments were made directly to the vendor for District employees instead of having the employee reimbursed, one payment was made for teachers to attend an AP workshop and an invoice for an AP exam prep session; payments for AP testing and training are not appropriate ASB expenditures.
- ***Foothill High:*** Two expenditures lacked supporting documentation including a payment that exceeded the invoice amount and a donation to the Leukemia & Lymphoma Society that was missing a receipt or acknowledgement from the charity.
- ***Orchard Middle***: Two expenditures lacked original receipts to Walmart and another unknown vendor.

Recommendation: We advise the District to follow-up on the noted exceptions to ensure that the disbursements were for a legitimate transaction. In addition, we recommend that the site require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

Observation**:* At ***Foothill High and ***Columbus Middle***, we found bank reconciliations were not being prepared timely. Bank reconciliations were completed in several instances over one month after the bank statement date. At ***Pioneer*** and ***Orchard Middle,*** reconciliations were not dated and so it could not be verified when they had been completed.

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

Observation: In our test of cash disbursements, we noted that the 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.

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: In our testing of cash receipts, we found some deposits tested lacked sufficient supporting documentation. Without original supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for.

Recommendation: We recommend that before any events are held, control procedures, such as ticket logs, tally sheets, prenumbered cash receipts, or cash register receipts, should be established that will allow for the reconciliation between money collected and event sales.

ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

Observation: During our cash receipts testing at ***Orchard and Columbus Middle,*** some of the cash receipts that we sampled were not deposited until three to four weeks after they had been collected.

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

Observation: We noted exceptions in documenting the receipt of goods at ***Tustin*** and ***Beckman High*** and ***Orchard*** and ***Columbus Middle***.

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

Observation: At ***Orchard Middle*** we noted that financial statements are not prepared and these, along with bank reconciliations, are not submitted to the District for review. This site is paying for expenditures using the personal credit card of the ASB bookkeeper, who also serves as the activities director which represents a lack of segregation of duties.

Recommendation: Good internal controls include segregation of duties for the recording, authorization and custody functions. Additionally a budget has not been prepared or adopted by Student Council for this new ASB site.

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

Nigro & Nigro, PC

Murrieta, California
December 11, 2015