

**TUSTIN UNIFIED
SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017**



TUSTIN UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2017
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Tustin Unified School District
Tustin, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tustin Unified School District, as of and for the fiscal year ended June 30, 2017, 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 *2016-17 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, 2017, 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.

Change in Accounting Principle

As discussed in Note 12 to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2016-17 due to the early adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$12,296,122 reduction of previously reported net position at July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

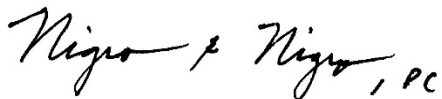
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on page 49, schedule of changes in the District's total OPEB liability and related ratios on page 50, schedule of proportionate share of the net pension liability on page 51, and schedule of pension contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 56 to 59 and the schedule of expenditures of federal awards on page 60 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 55 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 November 28, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
November 28, 2017

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2017

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, 2017. 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 \$20 million or 4.8% over the course of the year.
- Overall government-wide revenues were \$302.3 million, and overall expenses were \$282.3 million.
- The total cost of basic programs was \$282.3 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 \$213.8 million.
- The District decreased its outstanding long-term debt by \$3.6 million or 1.6%. This was primarily due to payments against general obligation bond debt.
- Average daily attendance (ADA) in grades K-12 increased by 42, or 0.2%.

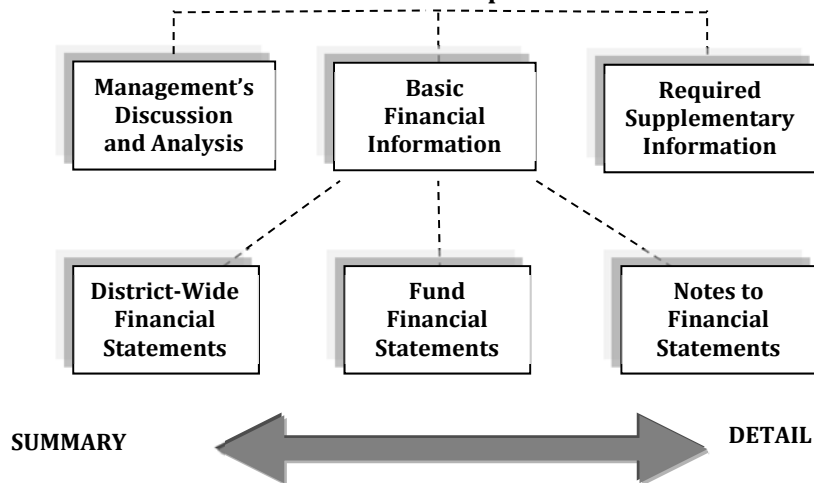
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2017, than it was the year before – increasing 4.8% to \$433.3 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2017	2016*	Increase (Decrease)
Assets			
Current assets	\$ 238,721,739	\$ 240,865,851	\$ (2,144,112)
Capital assets	607,392,661	580,218,855	27,173,806
Total assets	846,114,400	821,084,706	25,029,694
Deferred outflows of resources	61,714,347	42,397,424	19,316,923
Liabilities			
Current liabilities	29,550,499	26,898,471	2,652,028
Long-term liabilities	218,062,670	221,659,926	(3,597,256)
Net pension liability	216,170,593	177,960,194	38,210,399
Total liabilities	463,783,762	426,518,591	37,265,171
Deferred inflows of resources	10,700,428	23,612,950	(12,912,522)
Net position			
Net investment in capital assets	446,018,767	408,621,938	37,396,829
Restricted	103,855,277	115,898,159	(12,042,882)
Unrestricted	(116,529,487)	(111,169,508) *	(5,359,979)
Total net position	\$ 433,344,557	\$ 413,350,589	\$ 19,993,968

**restated due to implementation of GASB 75 in 2016/17.*

Changes in net position, governmental activities. The District's total revenues increased 6.4% to \$302.3 million (See Table A-2). The increase is due primarily to higher operating grant revenues.

The total cost of all programs and services increased 10.4% to \$282.3 million. The District's expenses are predominantly related to educating and caring for students, 76.8%. The purely administrative activities of the District accounted for just 4.6% of total costs. A significant contributor to the increase in costs was increases in salaries and benefits.

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	\$ 2,203,956	\$ 2,240,040	\$ (36,084)
Operating grants and contributions	66,269,501	49,587,734	16,681,767
Capital grants and contributions	-	4,030,642	(4,030,642)
General Revenues:			
Property taxes	137,762,852	126,629,832	11,133,020
Federal and state aid not restricted	82,139,772	90,289,628	(8,149,856)
Other general revenues	13,888,981	11,410,085	2,478,896
Total Revenues	302,265,062	284,187,961	18,077,101
Expenses			
Instruction-related	188,784,961	166,130,668	22,654,293
Pupil services	27,884,490	25,175,311	2,709,179
Administration	13,021,569	7,257,044	5,764,525
Plant services	23,019,935	22,878,261	141,674
All other activities	29,560,139	34,251,287	(4,691,148)
Total Expenses	282,271,094	255,692,571	26,578,523
Increase (decrease) in net position	\$ 19,993,968	\$ 28,495,390	\$ (8,501,422)

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 \$211.5 million, which is below last year's ending fund balance of \$216.3 million. The primary cause of the decreased fund balance is building fund expenditures for bond projects.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2016	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2017
General Fund	\$ 80,020,655	\$ 249,636,766	\$ 241,132,967	\$ (5,740,808)	\$ 82,783,646
Adult Education Fund	612,907	1,319,924	1,083,098	-	849,733
Child Development Fund	576,859	2,188,901	2,188,538	-	577,222
Cafeteria Fund	2,671,064	7,774,550	7,706,495	-	2,739,119
Deferred Maintenance Fund	5,167,096	4,037,066	1,459,366	-	7,744,796
Special Reserve Fund (Other Than Capital Outlay)	5,020,944	40,699	-	1,750,000	6,811,643
Building Fund	13,964,468	44,259	12,913,087	-	1,095,640
Capital Facilities Fund	14,953,288	915,194	885,171	2,939,974	17,923,285
County School Facilities Fund	49,546,159	373,856	15,387,014	-	34,533,001
Special Reserve Fund (Capital Outlay)	20,590,147	-	7,966,439	3,990,808	16,614,516
Capital Outlay Fund for Blended Component Units	6,693,278	17,571,387	1,963,508	950,195	23,251,352
Bond Interest and Redemption Fund	9,264,309	12,937,277	13,528,423	622,573	9,295,736
Self-Insurance Fund	7,196,386	62,773	4,440	-	7,254,719
	\$ 216,277,560	\$ 296,902,652	\$ 306,218,546	\$ 4,512,742	\$ 211,474,408

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

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

- Revenues – increased by \$8.2 million primarily to reflect federal and state budget actions
- Expenses – increased about \$1.1 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 \$2.8 million, and actual results matched expectations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$43.1 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$15.9 million.

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

	Governmental Activities		Variance
	2017	2016	Increase (Decrease)
Land	\$ 176,147,527	\$ 176,147,527	\$ -
Improvement of sites	48,360,942	32,621,016	15,739,926
Buildings	364,006,721	327,211,749	36,794,972
Equipment	10,815,142	6,576,037	4,239,105
Construction in progress	8,062,329	37,662,526	(29,600,197)
Total	<u>\$ 607,392,661</u>	<u>\$ 580,218,855</u>	<u>\$ 27,173,806</u>

Long-Term Debt

At year-end the District had \$218.1 million in general obligation bonds, compensated absences, other postemployment benefits, and workers' compensation claims – a decrease of 2.7% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities		Variance
	2017	2016*	Increase (Decrease)
General obligation bonds	\$ 187,586,957	\$ 194,531,383	\$ (6,944,426)
Workers' Compensation Claims	5,325,973	4,085,152	1,240,821
Compensated absences	1,068,719	1,472,759	(404,040)
Other postemployment benefits	24,081,021	21,570,632 *	2,510,389
Total	<u>\$ 218,062,670</u>	<u>\$ 221,659,926</u>	<u>\$ (3,597,256)</u>

*restated due to implementation of GASB 75 in 2016/17.

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

GASB 68

In 2015, the District implemented the new required pension standard known as "GASB 68". This standard requires government entities across the country to change the method of accounting and reporting for pensions. Before GASB 68, the District reported pension expense based solely on annual contributions to CalSTRS and CalPERS. While the District continues that practice within its governmental funds, there are new requirements for how those expenditures are measured within the "government-wide" financial statements. While the governmental funds continue to use the "modified accrual" basis of accounting, the "government-wide" financial statements use the "full accrual" accounting method. Therefore, pension expense is based on a new measure which requires the District to measure its "proportionate share" of the *expenses, net pension liability, deferred outflows of resources, and deferred inflows of resources* that exist within the CalSTRS and CalPERS pension plans' financial statements. These financial statement elements are unique in that the District has no control over them. The \$216 million *net pension liability* represents the District's 0.203% share of the total CalSTRS liability and 0.2632% share of the total CalPERS liability. The impact of this new liability is not felt in the General Fund and does not affect reserves, other than the fact that the employer contribution rates for CalSTRS and CalPERS are projected to increase significantly over the next few years to help reduce the overall pension plan unfunded liabilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2017-18 *Budget Act* and other budget-related bills on June 27, 2017.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

Proposition 98 Establishes Minimum Spending Level

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

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly

The 2015-16 minimum guarantee has decreased \$379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased \$53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased \$558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by \$484 million, but total spending, including a settle-up payment of \$514 million, is up slightly (\$29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

2017-18 Spending Up \$3.1 Billion Over Revised 2016-17 Level

In 2017-18, total spending across all segments is \$74.5 billion, an increase of \$3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been \$542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of \$536 million. Under the administration's estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of \$900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue

Of the total Proposition 98 spending provided in 2017-18, \$52.6 billion is state General Fund and \$21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases \$2.1 billion (accounting for about two-thirds of the \$3.1 billion increase in spending) and property tax revenue increases by \$1 billion. The primary factor explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years. Regarding local revenue associated with the dissolution of redevelopment agencies, the budget plan assumes a net increase of \$31 million. This consists of a \$131 million increase in the ongoing revenue shifted to schools and community colleges, offset by a \$100 million decrease in revenue from the sale of assets formerly owned by redevelopment agencies.

Spending Package Reduces Outstanding Settle-Up Obligation by \$603 Million

The budget plan includes a \$603 million settle-up payment related to meeting the 2009-10 minimum guarantee. This payment reduces the state's outstanding settle-up obligation from slightly above \$1 billion to \$440 million. Of the \$603 million provided, the budget plan allocates \$514 million for covering 2016-17 LCFF costs, \$86 million for the community college guided pathways initiative, and \$3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

K-12 Education

\$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18

The budgeted 2017-18 level is \$2.7 billion (4.3 percent) more than revised 2016-17 level and \$2.2 billion (3.6 percent) more than the 2016-17 Budget Act level. The budget increases funding per student by \$450 (4.3 percent) over the 2016-17 Budget Act level, bringing Proposition 98 funding per student up to \$10,863.

Package Includes Mix of Ongoing and One-Time Spending

The budget includes \$2.4 billion in augmentations for K-12 education. Of these augmentations, \$1.5 billion are ongoing increases and \$933 million are one-time initiatives. In addition to these changes, the budget package includes \$328 million in one-time initiatives funded from other sources. (Of this amount, \$325 million is from Proposition 98 reversion dollars and \$3 million is from a settle-up payment. Of the reversion dollars, \$114 million is for a fund swap primarily relating to special education.) The budget also authorizes \$593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities.

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools

The budget provides an additional \$1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to \$57.4 billion, a 2.7% increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants

The largest one-time augmentation for K-12 education is \$877 million that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on average daily attendance (\$147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third (\$268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be \$799 million at the end of 2017-18.

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely

The budget provides \$423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation, however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first \$75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. Priority is given to LEAs having the oldest buses, serving disadvantaged communities, or serving high shares of low-income students. The next \$100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules. The trailer legislation also extends the Proposition 39 energy-efficiency programs for K-12 and CCC LEAs beginning in 2018-19, contingent upon funds being made available through the annual budget act or other statute.

TUSTIN UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes (continued)

Augments After School Education and Safety (ASES) Program

Proposition 49, passed by the voters in 2002, requires the state to provide \$550 million in Proposition 98 funds annually for the ASES program. Since Proposition 49 was enacted, ASES providers have received \$7.50 per child per day. The budget increases ASES funding by \$50 million (9%)—bringing total funding to \$600 million. The augmentation will increase the per-child per-day rate.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities

Passed by the voters in November 2016, Proposition 51 authorizes the state to sell \$9 billion in general obligation bonds—\$7 billion for schools and \$2 billion for community colleges. The state plans to issue \$593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of \$368 million in already approved facility projects, as well as \$225 million in additional projects.

Establishes New Audit Rules

Trailer legislation shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. In June 2017, the State Allocation Board also enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2017-18 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, 2017*

	Total Governmental Activities
ASSETS	
Cash	\$ 218,408,578
Investments	1,295
Accounts receivable	20,026,191
Inventories	285,675
Non-depreciable assets	184,209,856
Depreciable assets	572,070,044
Less accumulated depreciation	<u>(148,887,239)</u>
Total assets	<u>846,114,400</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	9,470,004
Deferred outflows from pensions	<u>52,244,343</u>
Total deferred outflows of resources	<u>61,714,347</u>
LIABILITIES	
Accounts payable	28,331,910
Unearned revenue	1,218,589
Long-term liabilities:	
Portion due or payable within one year	7,218,093
Portion due or payable after one year	210,844,577
Net pension liability	<u>216,170,593</u>
Total liabilities	<u>463,783,762</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	<u>10,700,428</u>
NET POSITION	
Net investment in capital assets	446,018,767
Restricted for:	
Capital projects	69,070,802
Debt service	9,295,736
Categorical programs	20,162,766
Workers' compensation claims	5,325,973
Unrestricted	<u>(116,529,487)</u>
Total net position	<u>\$ 433,344,557</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instructional services:				
Instruction	\$ 159,830,561	\$ 3,020	\$ 26,858,617	\$ (132,968,924)
Instruction-related services:				
Supervision of instruction	11,639,260	3,546	3,297,047	(8,338,667)
Instructional library, media and technology	1,334,535	-	3	(1,334,532)
School site administration	15,980,605	472	753,141	(15,226,992)
Pupil support services:				
Home-to-school transportation	4,724,163	-	-	(4,724,163)
Food services	7,565,333	1,898,133	5,563,178	(104,022)
All other pupil services	15,594,994	1,544	4,251,533	(11,341,917)
General administration services:				
Data processing services	3,853,148	-	13,523	(3,839,625)
Other general administration	9,168,421	64,464	1,396,372	(7,707,585)
Plant services	23,019,935	152,103	15,022,855	(7,844,977)
Ancillary services	1,033,940	-	975,566	(58,374)
Community services	1,305,927	-	751,726	(554,201)
Interest on long-term debt	8,507,596	80,674	-	(8,426,922)
Other outgo	2,783,423	-	7,385,940	4,602,517
Depreciation (unallocated)	15,929,253	-	-	(15,929,253)
Total Governmental Activities	<u>\$ 282,271,094</u>	<u>\$ 2,203,956</u>	<u>\$ 66,269,501</u>	<u>(213,797,637)</u>
General Revenues:				
Property taxes				137,762,852
Federal and state aid not restricted to specific purpose				82,139,772
Interest and investment earnings				1,206,693
Interagency revenues				3,891,102
Miscellaneous				<u>8,791,186</u>
Total general revenues				<u>233,791,605</u>
Change in net position				<u>19,993,968</u>
Net position - July 1, 2016, as originally stated				425,646,711
Adjustments for restatement (Note 13)				<u>(12,296,122)</u>
Net position - July 1, 2016, as restated				<u>413,350,589</u>
Net position - June 30, 2017				<u>\$ 433,344,557</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 107,733,018	\$ 34,564,523	\$ 24,403,690	\$ 51,707,347	\$ 218,408,578
Investments	-	-	-	1,295	1,295
Accounts receivable	7,142,514	30,329	10,712,869	1,915,775	19,801,487
Due from other funds	506,396	-	-	4,029,063	4,535,459
Inventories	245,333	-	-	40,342	285,675
Total Assets	<u>\$ 115,627,261</u>	<u>\$ 34,594,852</u>	<u>\$ 35,116,559</u>	<u>\$ 57,693,822</u>	<u>\$ 243,032,494</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 13,048,202	\$ 61,851	\$ 11,865,207	\$ 828,778	\$ 25,804,038
Due to other funds	4,021,044	-	-	514,415	4,535,459
Unearned revenue	1,217,930	-	-	659	1,218,589
Total Liabilities	<u>18,287,176</u>	<u>61,851</u>	<u>\$ 11,865,207</u>	<u>1,343,852</u>	<u>31,558,086</u>
Fund Balances					
Nonspendable	395,333	-	-	40,342	435,675
Restricted	16,804,083	34,533,001	23,251,352	48,247,518	122,835,954
Committed	64,989,659	-	-	230,169	65,219,828
Assigned	7,744,796	-	-	577,222	8,322,018
Unassigned	7,406,214	-	-	7,254,719	14,660,933
Total Fund Balances	<u>97,340,085</u>	<u>34,533,001</u>	<u>23,251,352</u>	<u>56,349,970</u>	<u>211,474,408</u>
Total Liabilities and Fund Balances	<u>\$ 115,627,261</u>	<u>\$ 34,594,852</u>	<u>\$ 35,116,559</u>	<u>\$ 57,693,822</u>	<u>\$ 243,032,494</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2017

Total fund balances - governmental funds \$ 211,474,408

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	756,279,900	
Accumulated depreciation:	<u>(148,887,239)</u>	
Net:		607,392,661

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

9,470,004

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

(2,527,872)

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 government-wide statements, consist of:

General obligation bonds payable	187,586,957	
Workers' compensation claims	5,325,973	
Compensated absences	1,068,719	
Other postemployment benefits	<u>24,081,021</u>	
Total		(218,062,670)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.

(216,170,593)

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

Deferred outflows of resources relating to pensions	52,244,343	
Deferred inflows of resources relating to pensions	<u>(10,700,428)</u>	
Net:		<u>41,543,915</u>

Total net position - governmental activities \$ 433,344,557

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2017

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 195,993,269	\$ -	\$ -	430,000	\$ 196,423,269
Federal sources	8,546,874	-	-	6,675,127	15,222,001
Other state sources	38,300,051	-	-	2,399,438	40,699,489
Other local sources	10,874,337	373,856	17,571,387	15,738,313	44,557,893
Total Revenues	253,714,531	373,856	17,571,387	25,242,878	296,902,652
EXPENDITURES					
Current:					
Instruction	152,781,186	-	-	1,497,913	154,279,099
Instruction-related services:					
Supervision of instruction	11,246,802	-	-	14,363	11,261,165
Instructional library, media and technology	1,207,909	-	-	-	1,207,909
School site administration	14,693,774	-	-	628,073	15,321,847
Pupil support services:					
Home-to-school transportation	4,719,825	-	-	-	4,719,825
Food services	10,494	-	-	7,396,182	7,406,676
All other pupil services	14,807,426	-	-	135,742	14,943,168
Ancillary services	1,029,405	-	-	-	1,029,405
Community services	388,670	-	-	905,041	1,293,711
Enterprise activities	-	-	-	4,440	4,440
General administration services:					
Data processing services	4,645,199	-	-	-	4,645,199
Other general administration	9,351,941	-	-	-	9,351,941
Plant services	22,519,934	-	-	13,315	22,533,249
Transfers of indirect costs	(387,522)	-	-	387,522	-
Capital Outlay	2,794,800	15,387,014	1,963,508	21,764,677	41,909,999
Intergovernmental transfers	2,782,490	-	-	-	2,782,490
Debt Service:					
Principal	-	-	-	5,373,038	5,373,038
Interest	-	-	-	8,155,385	8,155,385
Total Expenditures	242,592,333	15,387,014	1,963,508	46,275,691	306,218,546
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,122,198	(15,013,158)	15,607,879	(21,032,813)	(9,315,894)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	6,931,715	6,931,715
Interfund transfers out	(3,990,808)	-	(2,940,907)	-	(6,931,715)
Transfers from fiduciary fund	-	-	3,891,102	-	3,891,102
Transfers to fiduciary fund	-	-	-	(933)	(933)
All other financing sources	-	-	-	622,573	622,573
Total Other Financing Sources and Uses	(3,990,808)	-	950,195	7,553,355	4,512,742
Net Change in Fund Balances	7,131,390	(15,013,158)	16,558,074	(13,479,458)	(4,803,152)
Fund Balances, July 1, 2016	90,208,695	49,546,159	6,693,278	69,829,428	216,277,560
Fund Balances, June 30, 2017	\$ 97,340,085	\$ 34,533,001	\$ 23,251,352	\$ 56,349,970	\$ 211,474,408

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, 2017

Total net change in fund balances - governmental funds \$ (4,803,152)

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	43,103,059	
Depreciation expense	<u>(15,929,253)</u>	
Net		27,173,806

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: 5,373,038

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: 1,160,739

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: 7,014

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: 410,649

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: (2,510,389)

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: (689,790)

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: (5,291,166)

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*). (836,781)

Change in net position of governmental activities \$ 19,993,968

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2017

	Agency Funds			Totals
	Student Body Funds	IRC Section 125 Fund	Debt Service Fund for Special Tax Bonds	
Assets				
Cash	\$ 623,366	\$ 60,000	\$ 8,115,867	\$ 8,799,233
Investments	-	-	29,841,916	29,841,916
Inventories	15,233	-	-	15,233
Prepaid expenses	6,995	-	-	6,995
Other assets	1,103	-	-	1,103
Total Assets	\$ 646,697	\$ 60,000	\$ 37,957,783	\$ 38,664,480
Liabilities				
Due to student groups	\$ 640,997	\$ -	\$ -	\$ 640,997
Accounts payable	5,700	-	-	5,700
Due to employees	-	60,000	-	60,000
Due to bondholders	-	-	37,957,783	37,957,783
Total Liabilities	\$ 646,697	\$ 60,000	\$ 37,957,783	\$ 38,664,480

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, but not for the Corporation.

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District also maintains a Deferred Maintenance Fund and a Special Reserve Fund for Other Than Capital Outlay Projects. The Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects are not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds

Special Revenue Funds:

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

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

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

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

Capital Projects Funds:

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

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

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

Debt Service Fund:

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

Fiduciary Funds

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

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Fiduciary Funds (continued)

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

2. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

3. Revenues - Exchange and Non-Exchange Transactions

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

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

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

D. Encumbrances

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

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

1. Cash and Cash Equivalents

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

2. Inventories

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

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. 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".

6. Compensated Absences

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

7. Pensions

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Fund Balances

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

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

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

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

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

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

9. Net Position

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

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position (continued)

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

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

F. Minimum Fund Balance Policy

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

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

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

G. Property Tax Calendar

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

H. Use of Estimates

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements

During the 2016-17 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

2. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)*

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

3. Statement No. 77, *Tax Abatement Disclosures (Issued 08/15)*

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

4. Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15)*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

5. Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

6. Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2017, are reported at fair value and consisted of the following:

	<u>Governmental Activities/Funds</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in county treasury	<u>\$ 217,792,749</u>	<u>\$ 8,115,867</u>
Total Pooled Funds	<u>217,792,749</u>	<u>8,115,867</u>
Deposits:		
Cash on hand and in banks	465,829	623,366
Cash in revolving fund	<u>150,000</u>	<u>60,000</u>
Total Deposits	<u>615,829</u>	<u>683,366</u>
Total Cash	<u>\$ 218,408,578</u>	<u>\$ 8,799,233</u>
Investments:		
U.S. Bank- Treasury Money Market Funds	<u>\$ 1,295</u>	<u>\$ 29,841,916</u>
Total Investments	<u>\$ 1,295</u>	<u>\$ 29,841,916</u>

Pooled Funds

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2017, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017, \$1,293,177 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, 2017, consist of the following:

	Fair Value	Maturity	
		Less Than One Year	One Year Through Five Years
Investment maturities:			
U.S. Bank:			
U.S. Treasury Money Market Funds	\$ 29,843,211	\$ 29,843,211	\$ -
Total Investments	\$ 29,843,211	\$ 29,843,211	\$ -

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, 2017, 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, 2017, the District had the following investments that represents more than five percent of the District's net investments.

U.S. Bank- Treasury Money Market Funds	100.0%
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TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consisted of the following:

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Totals
Federal Government:					
Categorical aid programs	\$ 2,164,561	\$ -	\$ -	\$ -	\$ 2,164,561
Food service	-	-	-	1,441,955	1,441,955
State Government:					
Lottery	2,038,271	-	-	-	2,038,271
Categorical aid programs	-	-	-	326,217	326,217
Food service	-	-	-	101,934	101,934
Other state	503,343	-	-	-	503,343
Local:					
Interest	104,608	30,329	-	33,156	168,093
Other local	939,653	-	-	-	939,653
Due from agency fund	-	-	8,815,726	-	8,815,726
Miscellaneous	1,392,078	-	1,897,143	12,513	3,301,734
Total	<u>\$ 7,142,514</u>	<u>\$ 30,329</u>	<u>\$ 10,712,869</u>	<u>\$ 1,915,775</u>	<u>\$ 19,801,487</u>

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2017, consisted of the following:

General Fund due to Adult Education Fund for expenditure transfer	\$	16,861
General Fund due to Child Development Fund for cost correction		2,881
General Fund due to Cafeteria Fund for cost transfers		10,494
General Fund due to Special Reserve Fund for Capital Outlay Projects for RDA and special reserve transfer		3,990,808
Adult Education Fund due to General Fund for health and welfare		28,716
Child Development Fund due to General Fund for health and welfare		93,694
Cafeteria Fund due to General Fund for health and welfare, and indirect costs		379,900
Special Reserve Fund for Capital Outlay Projects due to Building Fund for transfer of miscellaneous costs		8,019
Building Fund to General Fund for health and welfare		4,086
Total	\$	<u>4,535,459</u>

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2017, consisted of the following:

General Fund transfer to Special Reserve Fund for Capital Outlay Projects for RDA and special reserve transfer	\$	3,990,808
Capital Projects Fund for Blended Component Units transfer to Debt Service Fund for Blended Component Units		933
Capital Projects Fund for Blended Component Units transfer to Capital Facilities Fund for reimbursement of construction costs incurred at the Heritage School project		2,939,974
	\$	<u>6,931,715</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 5 – FUND BALANCES

At June 30, 2017, fund balances of the District’s governmental funds were classified as follows:

	General Fund	County School Facilities Fund	Capital Projects Fund for Component Units	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	245,333	-	-	40,342	285,675
Total Nonspendable	<u>395,333</u>	<u>-</u>	<u>-</u>	<u>40,342</u>	<u>435,675</u>
Restricted:					
Categorical programs	16,804,083	-	-	-	16,804,083
Adult Education Program	-	-	-	619,564	619,564
Food Service Program	-	-	-	2,698,777	2,698,777
Capital projects	-	34,533,001	23,251,352	35,633,441	93,417,794
Debt service	-	-	-	9,295,736	9,295,736
Total Restricted	<u>16,804,083</u>	<u>34,533,001</u>	<u>23,251,352</u>	<u>48,247,518</u>	<u>122,835,954</u>
Committed:					
Adult education program	-	-	-	230,169	230,169
Benefit accounts	140,000	-	-	-	140,000
Accrued vacation liability	1,170,295	-	-	-	1,170,295
Local protection	19,441,362	-	-	-	19,441,362
Facilities maintenance	5,100,262	-	-	-	5,100,262
Technology	4,921,468	-	-	-	4,921,468
Classroom furniture	9,846,272	-	-	-	9,846,272
Future school opening	460,000	-	-	-	460,000
One-time discretionary	12,806,301	-	-	-	12,806,301
School local programs	1,302,378	-	-	-	1,302,378
Textbook adoption	2,800,000	-	-	-	2,800,000
HRA balance reserve	189,678	-	-	-	189,678
Other commitments	6,811,643	-	-	-	6,811,643
Total Committed	<u>64,989,659</u>	<u>-</u>	<u>-</u>	<u>230,169</u>	<u>65,219,828</u>
Assigned:					
Child development operations	-	-	-	577,222	577,222
Deferred maintenance program	7,744,796	-	-	-	7,744,796
Total Assigned	<u>7,744,796</u>	<u>-</u>	<u>-</u>	<u>577,222</u>	<u>8,322,018</u>
Unassigned:					
Reserve for economic uncertainties	7,406,214	-	-	7,254,719	14,660,933
Total Unassigned	<u>7,406,214</u>	<u>-</u>	<u>-</u>	<u>7,254,719</u>	<u>14,660,933</u>
Total	<u>\$ 97,340,085</u>	<u>\$ 34,533,001</u>	<u>\$ 23,251,352</u>	<u>\$ 56,349,970</u>	<u>\$ 211,474,408</u>

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$ 176,147,527	\$ -	\$ -	\$ 176,147,527
Construction in progress	37,662,526	7,178,156	36,778,353	8,062,329
Total capital assets not being depreciated	<u>213,810,053</u>	<u>7,178,156</u>	<u>36,778,353</u>	<u>184,209,856</u>
Capital assets being depreciated:				
Improvement of sites	46,047,317	18,651,369	-	64,698,686
Buildings	433,542,199	48,048,118	-	481,590,317
Equipment	19,939,328	6,003,769	162,056	25,781,041
Total capital assets being depreciated	<u>499,528,844</u>	<u>72,703,256</u>	<u>162,056</u>	<u>572,070,044</u>
Accumulated depreciation for:				
Improvement of sites	(13,426,301)	(2,911,443)	-	(16,337,744)
Buildings	(106,330,450)	(11,253,146)	-	(117,583,596)
Equipment	(13,363,291)	(1,764,664)	(162,056)	(14,965,899)
Total accumulated depreciation	<u>(133,120,042)</u>	<u>(15,929,253)</u>	<u>(162,056)</u>	<u>(148,887,239)</u>
Total capital assets being depreciated, net	<u>366,408,802</u>	<u>56,774,003</u>	<u>-</u>	<u>423,182,805</u>
Governmental activity capital assets, net	<u>\$ 580,218,855</u>	<u>\$ 63,952,159</u>	<u>\$ 36,778,353</u>	<u>\$ 607,392,661</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2017, were as follows:

	Balance, July 1, 2016*	Additions	Deductions	Balance, June 30, 2017	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	\$ 173,840,126	\$ -	\$ 5,373,038	\$ 168,467,088	\$ 5,246,211
Accreted Interest	2,276,720	416,313	826,962	1,866,071	903,789
Unamortized Issuance Premium	18,414,537	-	1,160,739	17,253,798	1,068,093
Total - GO Bonds	<u>194,531,383</u>	<u>416,313</u>	<u>7,360,739</u>	<u>187,586,957</u>	<u>7,218,093</u>
Workers' Compensation Claims	4,085,152	1,240,821	-	5,325,973	-
Compensated Absences	1,472,759	-	404,040	1,068,719	-
Other Postemployment Benefits*	21,570,632	2,510,389	-	24,081,021	-
Totals	<u>\$ 221,659,926</u>	<u>\$ 4,167,523</u>	<u>\$ 7,764,779</u>	<u>\$ 218,062,670</u>	<u>\$ 7,218,093</u>

* Restated to reflect the OPEB liability in accordance with GASB Statement No. 75.

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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.

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At June 30, 2017, \$52,358,166 of defeased debt remains outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2017, deferred amounts on refunding were \$9,470,004.

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

Below is a schedule of bonds issued and outstanding as of June 30, 2017.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2016	Issued	Redeemed	Balance, June 30, 2017
Measure G:								
2002C	5/1/2008	2032	4.00% - 5.00%	\$ 22,649,972	\$ 784,820	\$ -	\$ 409,186	\$ 375,634
2002D	3/10/2010	2034	6.00% - 6.90%	24,998,556	14,455,306	-	753,852	13,701,454
Measure L:								
2008A	3/30/2010	2034	3.00% - 6.589%	25,000,000	16,495,000	-	645,000	15,850,000
2008B	6/9/2011	2037	2.00% - 5.00%	25,000,000	3,360,000	-	245,000	3,115,000
2008C	5/8/2014	2042	2.00% - 4.00%	25,000,000	23,685,000	-	240,000	23,445,000
2008D	2/18/2015	2035	3.0% - 3.375%	20,000,000	20,000,000	-	310,000	19,690,000
Measure S:								
2012A	3/14/2014	2037	2.0% - 5.0%	35,000,000	29,830,000	-	2,110,000	27,720,000
Refunding Bonds:								
Refunding	1/28/2015	2032	2.0% - 5.0%	23,795,000	23,490,000	-	355,000	23,135,000
Refunding	4/6/2016	2029	5.00%	15,195,000	15,195,000	-	-	15,195,000
Refunding	4/6/2016	2037	2.0% - 5.0%	26,545,000	26,545,000	-	305,000	26,240,000
					<u>\$ 173,840,126</u>	<u>\$ -</u>	<u>\$ 5,373,038</u>	<u>\$ 168,467,088</u>
Accreted Interest:								
				Series				
				2002C	\$ 782,249	\$ 139,960	\$ 480,814	\$ 441,395
				2002D	1,494,471	276,353	346,148	1,424,676
					<u>\$ 2,276,720</u>	<u>\$ 416,313</u>	<u>\$ 826,962</u>	<u>\$ 1,866,071</u>

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

Fiscal Year	Principal	Interest	Total
2017-18	\$ 5,246,211	\$ 7,743,715	\$ 12,989,926
2018-19	6,170,680	7,136,021	13,306,701
2019-20	4,461,136	7,068,816	11,529,952
2020-21	4,698,136	6,938,415	11,636,551
2021-22	5,395,925	6,793,826	12,189,751
2022-27	37,880,000	25,617,856	63,497,856
2027-32	46,470,000	17,307,148	63,777,148
2032-37	39,815,000	7,613,780	47,428,780
2037-42	15,325,000	1,835,712	17,160,712
2042-43	3,005,000	55,288	3,060,288
	<u>\$ 168,467,088</u>	<u>\$ 88,110,577</u>	<u>\$ 256,577,665</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

B. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$242,867,500 as of June 30, 2017, does not represent debt of the District and, as such, does not appear in the financial statements.

NOTE 8 – JOINT VENTURES

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

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

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

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

	ASCIP June 30, 2016 <u>(Audited)</u>
Total Assets	\$ 407,081,077
Deferred Outflows of Resources	1,224,143
Total Liabilities	222,632,775
Deferred Inflows of Resources	<u>857,574</u>
Net Position	<u>\$ 184,814,871</u>
Total Revenues	\$ 274,047,686
Total Expenditures	<u>246,800,516</u>
Change in Net Assets	<u>\$ 27,247,170</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017, the District had commitments with respect to unfinished capital projects of approximately \$20.1 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, 2017.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2017, 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 2016-17, 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, 2015 to June 30, 2017:

	Workers' Compensation
Liability Balance, July 1, 2015	\$ 4,085,152
Claims and changes in estimates	4,891
Claims payments	<u>(4,891)</u>
Liability Balance, June 30, 2016	4,085,152
Claims and changes in estimates	1,245,261
Claims payments	<u>(4,440)</u>
Liability Balance, June 30, 2017	<u>\$ 5,325,973</u>
Assets available to pay claims at June 30, 2017	<u>\$ 7,254,719</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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% 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% simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2% 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% of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0% at age 52 for members under *2% at 62*, increasing to a maximum of 2.5 percent at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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% per year.

Contributions

Active CalSTRS plan members under 2% at 60 were required to contribute 10.25% and plan members under 2% at 62 were required to contribute 9.205% of their salary in 2016-17. The required employer contribution rate for fiscal year 2016-17 was 12.58% 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 2016-17 was 13.888%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	CalSTRS	CalPERS
Employer contributions	\$ 13,728,423	\$ 4,777,496
Employer contributions paid by State	\$ 8,220,072	\$ -
Employee contributions paid by employer	\$ -	\$ -

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

As of June 30, 2017, 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	\$ 164,188,430
CalPERS	51,982,163
Total Net Pension Liability	<u>\$ 216,170,593</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

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, 2016, 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, 2015, rolled forward to June 30, 2016, 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, 2015 and 2016, was as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Proportion - June 30, 2015	0.2080%	0.2573%
Proportion - June 30, 2016	<u>0.2030%</u>	<u>0.2632%</u>
Change - Increase (Decrease)	<u>-0.0050%</u>	<u>0.0059%</u>

For the year ended June 30, 2017, the District recognized pension expense of \$24,650,260. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 18,505,919	\$ -
Differences between actual and expected experience	2,235,731	(4,005,190)
Changes in assumptions	-	(1,561,754)
Adjustment due to differences in proportions	5,250,349	-
Net differences between projected and actual earnings on plan investments	<u>26,252,344</u>	<u>(5,133,484)</u>
	<u>\$ 52,244,343</u>	<u>\$ (10,700,428)</u>

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

The total amount of \$18,505,919 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	Amount
June 30,	
2018	\$ 4,526,119
2019	4,301,709
2020	6,595,829
2021	2,149,278
2022	(1,100,291)
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry age normal	Entry age normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation	3.00%	2.75%
Wage Growth	3.75%	Varies
Post-retirement Benefit Increase	2.00%	2.00%
Investment Rate of Return	7.60%	7.65%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2015, valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – for CalSTRS

The discount rate used to measure the total pension liability was 7.60%. 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%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members.

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate – for CalSTRS (continued)

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

Discount Rate – for CalPERS

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

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

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

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return	
	CalSTRS	CalPERS	CalSTRS	CalPERS
Global Equity	47%	51%	6.30%	5.71%
Global Debt Securities	N/A	20%	N/A	2.43%
Inflation Sensitive	4%	6%	3.80%	3.36%
Private Equity	13%	10%	9.30%	6.95%
Absolute Return/Risk Mitigating Strategies	9%	N/A	2.90%	N/A
Real Estate	13%	10%	5.20%	5.13%
Infrastructure and Forestland	N/A	2%	N/A	5.09%
Fixed Income	12%	N/A	0.30%	N/A
Cash/Liquidity	2%	1%	-1.00%	-1.05%
	<u>100%</u>	<u>100%</u>		

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 11 – PENSION PLANS (continued)

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

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

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

	<u>CalSTRS</u>	<u>CalPERS</u>
1% Decrease	6.60%	6.65%
Net Pension Liability	\$ 236,304,180	\$ 77,557,676
Current Discount Rate	7.60%	7.65%
Net Pension Liability	\$ 164,188,430	\$ 51,982,163
1% Increase	8.60%	8.65%
Net Pension Liability	\$ 104,293,280	\$ 30,685,515

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plans

At June 30, 2017, the District reported a payable of \$1,350,289 and \$440,477 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2017.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. General Information about the OPEB Plan

Plan Description

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

A. General Information about the OPEB Plan (continued)

Benefits Provided

Following is a description of the current retiree plan:

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

Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	80
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	1,574
Total	1,654

B. Total OPEB Liability

The District’s total OPEB liability of \$24,081,021 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	3.5 percent
Healthcare cost trend rates	4.0 percent
Retirees' share of benefit-related costs	None

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

B. Total OPEB Liability (continued)

Following are the tables the mortality assumptions are based upon.

2009 CalSTRS Mortality

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

2014 CalPERS Retiree and Active Mortality for Miscellaneous Employees

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

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

2009 CalSTRS Retirement Rates

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

2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees

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

2009 CalPERS Retirement Rates for School Employees

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

C. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2016	<u>\$ 21,570,632</u>
Changes for the year:	
Service cost	2,497,785
Interest	783,982
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	-
Benefit payments	<u>(771,378)</u>
Net changes	<u>2,510,389</u>
Balance at June 30, 2017	<u><u>\$ 24,081,021</u></u>

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2017

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

C. Changes in the Total OPEB Liability (continued)

Sensitivity of the total OPEB liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5 percent) or 1-percentage-point higher (4.5 percent) than the current discount rate:

	1% Decrease 2.5%	Discount Rate 3.5%	1% Increase 4.5%
Total OPEB liability (asset)	\$ 25,878,688	\$ 24,081,021	\$ 22,434,656

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

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

	1% Decrease 3.0%	Healthcare Cost Trend Rates 4.0%	1% Increase 5.0%
Net OPEB liability (asset)	\$ 15,773,752	\$ 24,081,021	\$ 34,254,562

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

For the year ended June 30, 2017, the District recognized OPEB expense of \$2,510,389. At June 30, 2017, the District reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

NOTE 13 – ADJUSTMENT FOR RESTATEMENT

The beginning net position on the Statement of Activities has been restated by \$12,296,122 as required by the early implementation of GASB No. 75, which is described in further detail in Note 1.I.

NOTE 14 – SUBSEQUENT EVENT

On August 28, 2017, the Board of Education authorized the closing of escrow on the acquisition of the Legacy site from the City of Tustin.

Required Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual* (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
LCFF sources	\$ 192,277,635	\$ 191,993,269	\$ 191,993,269	\$ -
Federal sources	7,741,257	8,967,939	8,546,874	(421,065)
Other State sources	35,526,393	39,831,079	38,300,051	(1,531,028)
Other Local sources	7,940,298	10,861,136	10,796,572	(64,564)
Total Revenues	243,485,583	251,653,423	249,636,766	(2,016,657)
Expenditures				
Current:				
Certificated salaries	108,399,350	110,563,864	110,541,223	22,641
Classified salaries	36,717,783	37,140,745	37,110,528	30,217
Employee benefits	56,353,400	53,741,637	53,728,278	13,359
Books and supplies	13,370,162	13,965,715	12,267,799	1,697,916
Services and other operating expenditures	23,588,465	21,049,673	20,797,152	252,521
Transfers of indirect cost	(380,888)	(387,521)	(387,522)	1
Capital outlay	835,000	4,293,021	4,293,019	2
Intergovernmental transfers	3,213,345	2,782,490	2,782,490	-
Total Expenditures	242,096,617	243,149,624	241,132,967	2,016,657
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,388,966	8,503,799	8,503,799	-
Other Financing Sources and Uses				
Interfund transfers out	(3,100,000)	(5,740,808)	(5,740,808)	-
Total Other Financing Sources and Uses	(3,100,000)	(5,740,808)	(5,740,808)	-
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under)				
Expenditures and Other Financing Uses	(1,711,034)	2,762,991	2,762,991	-
Fund Balances, July 1, 2016	73,459,259	80,020,656	80,020,655	-
Fund Balances, June 30, 2017	\$ 71,748,225	\$ 82,783,647	\$ 82,783,646	\$ -

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

TUSTIN UNIFIED SCHOOL DISTRICT

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2017*

Last 10 Fiscal Years*

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 2,497,785
Interest	783,982
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	-
Benefit payments	<u>(771,378)</u>
Net change in total OPEB liability	2,510,389
Total OPEB liability - beginning	<u>21,570,632</u>
Total OPEB liability - ending	<u>\$ 24,081,021</u>
Covered-employee payroll	<u>\$ 142,506,338</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>16.90%</u>

Notes to Schedule:

There were no changes to benefit terms or assumptions.

** 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 Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.2030%</u>	<u>0.2080%</u>	<u>0.1970%</u>
District's proportionate share of the net pension liability	<u>\$ 164,188,430</u>	<u>\$ 140,033,920</u>	<u>\$ 115,120,890</u>
State's proportionate share of the net pension liability associated with the District	<u>93,483,306</u>	<u>74,062,308</u>	<u>69,515,662</u>
Totals	<u>\$ 257,671,736</u>	<u>\$ 214,096,228</u>	<u>\$ 184,636,552</u>
District's covered-employee payroll	<u>\$ 102,439,748</u>	<u>\$ 95,210,923</u>	<u>\$ 88,358,545</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>160.28%</u>	<u>147.08%</u>	<u>130.29%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.2632%</u>	<u>0.2573%</u>	<u>0.2517%</u>
District's proportionate share of the net pension liability	<u>\$ 51,982,163</u>	<u>\$ 37,926,274</u>	<u>\$ 28,574,079</u>
District's covered-employee payroll	<u>\$ 31,604,288</u>	<u>\$ 28,447,600</u>	<u>\$ 26,511,816</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>164.48%</u>	<u>133.32%</u>	<u>107.78%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2017

Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 13,728,423	\$ 10,991,785	\$ 8,454,730
Contributions in relation to the contractually required contribution	<u>13,728,423</u>	<u>10,991,785</u>	<u>8,454,730</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 109,128,959</u>	<u>\$ 102,439,748</u>	<u>\$ 95,210,923</u>
Contributions as a percentage of covered-employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 4,777,496	\$ 3,744,160	\$ 3,348,567
Contributions in relation to the contractually required contribution	<u>4,777,496</u>	<u>3,744,160</u>	<u>3,348,567</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 34,400,173</u>	<u>\$ 31,604,288</u>	<u>\$ 28,447,600</u>
Contributions as a percentage of covered-employee payroll	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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

TUSTIN UNIFIED SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2017

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

This schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents information of the measurement date of the net OPEB liability.

Schedule of Proportionate Share of the Net Pension Liability

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

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

Schedule of Pension Contributions

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

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

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

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

Changes of Assumptions

There were no changes of assumptions.

TUSTIN UNIFIED SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2017, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT

Local Educational Agency Organization Structure

June 30, 2017

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
Jonathan Ablove	President	November, 2018
Tammie Bullard	Vice President	November, 2020
James Laird	Clerk	November, 2020
Lynn Davis	Member	November, 2018
Francine Scinto	Member	November, 2020

DISTRICT ADMINISTRATORS

Gregory A. Franklin, Ed.D.,
Superintendent

Kathie Nielsen,
Deputy Superintendent, Educational Services

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

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

Anthony Soria,
Chief Financial Officer

Charles Lewis, Ed.D.,
Chief Personnel Officer

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2017

	Second Period Report	Annual Report
	Certificate No. (1B184480)	Certificate No. (4E4D0246)
Regular ADA & Extended Year:		
Transitional Kindergarten through Third	6,427.15	6,425.69
Fourth through Sixth	5,329.20	5,326.07
Seventh and Eighth	3,924.38	3,917.50
Ninth through Twelfth	7,718.14	7,667.99
	<hr/>	<hr/>
Total Regular ADA	23,398.87	23,337.25
	<hr/>	<hr/>
Special Education-Nonpublic, Nonsectarian Schools:		
Fourth through Sixth	0.05	1.12
Seventh and Eighth	0.81	1.38
Ninth through Twelfth	8.96	11.68
	<hr/>	<hr/>
Total Special Education-Nonpublic, Nonsectarian Schools	9.82	14.18
	<hr/>	<hr/>
Total ADA	23,408.69	23,351.43
	<hr/>	<hr/>

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2017

<u>Grade Level</u>	<u>Required</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,540	180	Complied
Grade 1	50,400	54,514	180	Complied
Grade 2	50,400	54,514	180	Complied
Grade 3	50,400	54,154	180	Complied
Grade 4	54,000	54,514	180	Complied
Grade 5	54,000	54,514	180	Complied
Grade 6	54,000	55,674	180	Complied
Grade 7	54,000	55,674	180	Complied
Grade 8	54,000	55,674	180	Complied
Grade 9	64,800	73,080	180	Complied
Grade 10	64,800	73,080	180	Complied
Grade 11	64,800	73,080	180	Complied
Grade 12	64,800	71,490	180	Complied

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2017

General Fund	(Budget) 2018 ²	2017 ³	2016	2015
Revenues and other financing sources	\$ 246,106,041	\$ 249,636,766	\$ 241,807,397	\$ 203,689,072
Expenditures	252,062,079	241,132,967	215,583,217	194,835,991
Other uses and transfers out	3,500,000	5,740,808	6,250,831	5,795,021
Total outgo	255,562,079	246,873,775	221,834,048	200,631,012
Change in fund balance (deficit)	(9,456,038)	2,762,991	19,973,349	3,058,060
Ending fund balance	\$ 73,327,608	\$ 82,783,646	\$ 80,020,655	\$ 60,047,306
Available reserves ¹	\$ 7,666,863	\$ 7,406,214	\$ 6,655,022	\$ 25,529,699
Available reserves as a percentage of total outgo	3.0%	3.0%	3.0%	12.7%
Total long-term debt	\$ 427,015,170	\$ 434,233,263	\$ 387,323,998	\$ 347,955,689
Average daily attendance at P-2	23,354	23,409	23,367	23,279

The General Fund balance has increased by approximately \$22.7 million over the past two years. The fiscal year 2017-18 adopted budget projects a decrease of approximately \$9.5 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past three years, but anticipates incurring an operating deficit during the 2017-18 fiscal year. Long-term debt has increased by \$86.3 million over the past two years.

Average daily attendance has increased by 129 over the past two years. The District projects a decrease of 54 ADA in 2017-18.

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

² Budget as of September 2017.

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

TUSTIN UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2017*

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

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

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	\$ 41,038	
School Breakfast Program - Especially Needy	10.553	13526	1,314,544	
National School Lunch Program	10.555	13523	3,581,112	
Summer Food Service Program	10.559	13004	33,372	
USDA Donated Foods	10.555	N/A	<u>467,170</u>	
Total Child Nutrition Cluster				\$ 5,437,236
CCFP Claims Centers and Family Day Care Homes	10.558	13394	370,646	
CCFP Cash in Lieu of Commodities	10.558	13389	<u>26,978</u>	
Total Child Care Food Program Cluster				<u>397,624</u>
Total U.S. Department of Agriculture				<u>5,834,860</u>
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,539,958
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		38,912
Title II, Part A, Supporting Effective Instruction State Grant	84.367	14344		479,006
English Language Acquisition State Grants				
Title III, Language and Acquisition English Learner Student Program	84.365	14346	536,342	
Title III, Language and Acquisition Immigrant Education Program	84.365	15146	<u>33,861</u>	
Total English Language Acquisition State Grants				570,203
Carl Perkins Act - Secondary	84.048	14894		136,603
Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	3,304,053	
Preschool Grants, Part B, Sec 619	84.173	13430	74,488	
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	390,854	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	269,384	
Preschool Staff Development	84.173A	13431	1,012	
Alternate Dispute Resolution	84.173A	13007	<u>5,020</u>	
Total Special Education Cluster				4,044,811
Early Intervention Grants, Part C	84.181	23761		61,210
Workability II, Transition	84.158	10006		<u>96,107</u>
Total U.S. Department of Education				<u>7,966,810</u>
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Development:				
CCDF Discretionary General Child Care FF	93.575	15136	106,360	
Child Care Mandatory and Matching funds - Child Care and Development Fund	93.596	13609	<u>231,559</u>	
Total Child Development				337,919
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	841,425	
Medi-Cal Administrative Activities (MAA)	N/A	10060	<u>12,537</u>	
Total Medicaid Cluster				853,962
Total U.S. Department of Health & Human Services				<u>1,191,881</u>
Total Expenditures of Federal Awards				<u>\$ 14,993,551</u>

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

TUSTIN UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2017.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 15,222,001
Differences between Federal Revenues and Expenditures:		
Qualified School Construction Bonds - Interest Subsidy	Not applicable	(502,348)
Medi-Cal Billing Option	93.778	261,361
Medi-Cal Administrative Activities	Not applicable	<u>12,537</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 14,993,551</u>

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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, 2017, 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 November 28, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

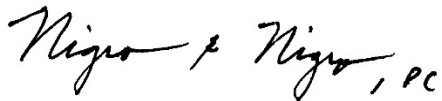
As part of obtaining reasonable assurance about whether Tustin Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001.

Tustin Unified School District's Response to Finding

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

Purpose of this Report

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



Murrieta, California
November 28, 2017



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 2016-17 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, 2017.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tustin Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Tustin Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

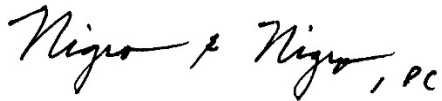
Table with 2 columns: Description, Procedures Performed. Rows include Attendance, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time, Instructional Materials, and Ratio of Administrative Employees to Teachers.

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	Yes
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

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

Unmodified Opinion on Compliance with State Programs

In our opinion, Tustin Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.



Murrieta, California
November 28, 2017



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

Board of Education
Tustin Unified School District
Tustin, California

Report on Compliance for Each Major Federal Program

We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Tustin Unified School District's major federal programs for the year ended June 30, 2017. Tustin Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tustin Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tustin Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Tustin Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001. 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.

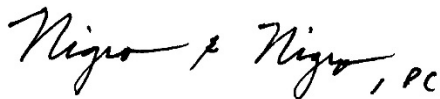
Report on Internal Control Over Compliance

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



Murrieta, California
November 28, 2017

Findings and Questioned Costs

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TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

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

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

There were no financial statement findings in 2016-17.

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Finding 2017-001: Cafeteria Fund Cash Reserves (60000)

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 Service 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, 2017, the restricted fund balance in the Cafeteria Fund was \$2,698,777, which exceeds three months average expenditures by \$129,945. In the prior year, the District was in compliance with this requirement.

Questioned Cost: None

Cause: The District experienced a slight increase in revenues over expenditures, resulting in the excess amount in the fund.

Recommendation: We recommend the District work to spend down excess reserves in coordination with CDE.

Views of Responsible Officials: To comply with regulation 7 CFR Section 210.14(b) on the Cafeteria net cash resources, the District is currently developing a spending plan for submission to California Department of Education (CDE) which will reduce the excess cash resources approximately \$200,000 by June 30, 2018. Spending plan includes increasing expenditures for the following areas:

- Replace kitchen and cafeteria equipment at various school locations.
- Increase hot and cold serving units at several elementary schools that require them.
- Increase current student menus with special items.

The District will monitor and reassess the net cash reserves in 2017/18 to ensure compliance.

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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 2016-17.

TUSTIN UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2016-001: Educator Effectiveness</i>	<p>The District is required to explain a delineated plan for how Educator Effectiveness funds will be spent in a public meeting before adoption in a subsequent public meeting.</p> <p>The District presented a delineated plan for Educator Effectiveness funds and adopted the plan at the same meeting on December 4, 2015.</p>	40000	We recommend the District adopt the plan as soon as possible in a public meeting.	<p>Implemented.</p> <p>The District adopted the plan at a public meeting on January 17, 2017.</p>

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

In planning and performing our audit of the basic financial statements of Tustin Unified School District for the year ending June 30, 2017, 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 November 28, 2017 on the financial statements of Tustin Unified School District.

ASSOCIATED STUDENT BODY (ASB)

Observation: In our testing of cash disbursements at *Beckman High, Foothill High, Pioneer Middle, and Tustin High*, we noted many disbursements were either not approved by the District Representative, the ASB advisor, and/or the student representative or were not approved until after the expenditure was already incurred. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds.

Recommendation: As a “best practice”, approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student-body funds and falls within budgetary guidelines.

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

Recommendation: We recommend that the sites require all approvals and appropriate supporting documentation to match prior to issuing disbursements to ensure that student funds are being properly spent.

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

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

ASSOCIATED STUDENT BODY (ASB) (continued)

Observation: During our test of cash disbursements at *Tustin High*, we noted items that were shipped to personal addresses rather than to the site.

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

Observation: Through inquiry at *Pioneer Middle* we found that, the ASB pays referees and security guards in cash for purposes of timely payouts.

Recommendation: We recommend that the District pay these individuals a stipend through the normal payroll process if these are District employees. Then the ASB should reimburse the District for the work performed by these individuals on behalf of the ASB. Otherwise, the ASB should pay non-employees through the standard disbursement process, and not from petty cash or from cash collected from fund raising activities.

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

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

Observation: During our review of club and trust accounts at *Foothill High* and *Beckman High* we identified accounts that appear to be inappropriate because they do not benefit a group of students.

Recommendation: We recommend the monies from graduating classes be gifted to the incoming freshman class or to the general ASB and close the graduating class. Further, we recommend that the ASB only operate clubs that are for the benefit of the student body and not be used for District expenses or fees.

Observation: Through inquiry, we noted at *Foothill High* and *Pioneer Middle* that revenue potential worksheets are not prepared for major fund raisers. It is important for student organizations to have adequate internal controls over their fund-raising events, properly evaluate the effectiveness of those events, and account for a fund-raiser's financial activity. Revenue potentials are used as a budgeting and planning tool. The form serves as a sales plan that includes expected sales levels, sale prices per unit, expected cost, and net income.

Recommendation: We recommend that revenue potentials be prepared for all major fund-raising activities.

Observation: At *Beckman High*, we noted through inquiry that there are not two people present when cash is recounted by the bookkeeper for any cash left in the safe overnight. Confirming the accuracy of cash counts in the presence of another individual is an important control step and help protect both the ASB bookkeeper and advisor from allegations of fraud, and help establish the chain of custody in order to identify fraud.

Recommendation: We recommend that cash always be counted in the presence of a witness and that any differences in counts be resolved and recorded.

ASSOCIATED STUDENT BODY (ASB) (continued)

Observation: During our review of bank reconciliations at **Foothill High**, we noted that reconciliations of bank statements were all performed in mid-March for the months of August-February.

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

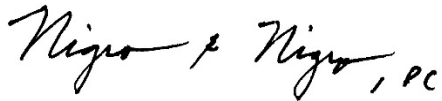
Observation: We noted that the money market account at **Foothill High** was closed on June 1, but withdrawn funds in the amount of \$55,000 were not deposited in the regular ASB account until June 20. Additionally, the amount was recorded incorrectly as revenue and the transferred cash was incorrectly still on the balance sheet.

Recommendation: The funds for the closed account should have been transferred directly into the main checking account, not withdrawn and deposited later. Also, the transaction should have been recorded as a transfer and not as a sale. This overstated both cash and revenues.

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

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

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



Murrieta, California
November 28, 2017