



**SANTA ANA UNIFIED  
SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2014**



# SANTA ANA UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS JUNE 30, 2014

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### **FINANCIAL SECTION**

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds - Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Proprietary Funds - Statement of Net Position	22
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	23
Proprietary Funds - Statement of Cash Flows	24
Fiduciary Funds - Statement of Net Position	25
Notes to Financial Statements	26

### **REQUIRED SUPPLEMENTARY INFORMATION**

General Fund - Budgetary Comparison Schedule	65
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	66

### **SUPPLEMENTARY INFORMATION**

Schedule of Expenditures of Federal Awards	68
Local Education Agency Organization Structure	70
Schedule of Average Daily Attendance	71
Schedule of Instructional Time	72
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	73
Schedule of Financial Trends and Analysis	74
Schedule of Charter Schools	75
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	77
General Fund Selected Financial Information	78
Note to Supplementary Information	79

### **INDEPENDENT AUDITOR'S REPORTS**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	82
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	84
Report on State Compliance	86

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **TABLE OF CONTENTS**

**JUNE 30, 2014**

---

### ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

Summary of Auditor's Results	89
Financial Statement Findings	90
Federal Awards Findings and Questioned Costs	91
State Awards Findings and Questioned Costs	92
Summary Schedule of Prior Audit Findings	94
Management Letter	96

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Santa Ana Unified School District  
Santa Ana, 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 the Santa Ana Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District'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 the Santa Ana Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 required supplementary information, such as management's discussion and analysis on pages 5 through 14 and budgetary comparison and other postemployment benefit information on pages 66 and 67, respectively, 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 Santa Ana Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014, on our consideration of the Santa Ana Unified School 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 Santa Ana Unified School District's internal control over financial reporting and compliance.

VARRINCK, TRINE DAY + 10.11.14

Rancho Cucamonga, California  
December 5, 2014

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# Santa Ana Unified School District

Richard L. Miller, Ph.D., Superintendent

This section of Santa Ana Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Santa Ana Unified School District.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

**Governmental Activities** – The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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**Governmental Funds** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

**Proprietary Funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity. The District's fiduciary activities are reported in the *Statement of Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$646.5 million for the fiscal year ended June 30, 2014, reflecting an increase of 2.0 percent since June 30, 2013. Of this amount, (\$145.6) million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

		Governmental Activities	
		2014	2013, as Restated
<b>Assets</b>			
Current and other assets		\$ 282,756,821	\$ 313,364,852
Capital assets		926,106,606	897,035,925
<b>Total Assets</b>		<b>1,208,863,427</b>	<b>1,210,400,777</b>
<b>Deferred Outflows of Reserves</b>		<b>584,027</b>	<b>-</b>
<b>Liabilities</b>			
Current liabilities, including current portion of long-term obligations		88,357,624	99,457,716
Long-term obligations		474,598,511	475,207,835
<b>Total Liabilities</b>		<b>562,956,135</b>	<b>574,665,551</b>
<b>Net Position</b>			
Net investment in capital assets		572,952,431	528,196,498
Restricted		145,552,617	121,364,866
Unrestricted		(72,013,729)	(13,826,138)
<b>Total Net Position</b>		<b>\$ 646,491,319</b>	<b>\$ 635,735,226</b>

The (\$72.0) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased to (\$72.0) million compared to (\$10.8) million.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities	
	2014	2013
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,199,199	\$ 3,681,736
Operating grants and contributions	139,084,478	155,230,156
Capital grants and contributions	15,081,523	9,832,370
General revenues:		
Federal and State aid not restricted	265,462,571	221,296,443
Property taxes	124,877,224	131,052,312
Other general revenues	39,316,622	37,659,815
<b>Total Revenues</b>	<b>587,021,617</b>	<b>558,752,832</b>
<b>Expenses</b>		
Instruction	323,870,386	319,731,749
Instruction-related	65,320,859	71,064,629
Student support services	69,550,224	64,599,324
Administration	25,831,395	26,754,165
Plant services	52,709,033	52,659,113
Interest on long-term obligations	22,207,087	21,790,646
Other	16,776,540	16,740,163
<b>Total Expenses</b>	<b>576,265,524</b>	<b>573,339,789</b>
<b>Change in Net Position</b>	<b>\$ 10,756,093</b>	<b>\$ (14,586,957)</b>

### Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$576.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$124.9 million because the cost was paid by those who benefited from the programs (\$3.2 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$154.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$304.8 million in State funds, and with other revenues, like interest and general entitlements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2014**

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, instruction-related programs, student support services, administration, plant services, and interest on long-term obligations, and all other functional expenses. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction	\$ 323,870,386	\$ 319,731,749	\$ 233,142,145	\$ 232,047,198
Instruction-related	65,320,859	71,064,629	48,802,711	43,341,443
Student support services	69,550,224	64,599,324	29,877,067	21,518,325
Administration	25,831,395	26,754,165	22,238,117	23,292,515
Plant services	52,709,033	52,659,113	51,995,039	51,337,914
Interest on long-term obligations	22,207,087	21,790,646	22,207,087	21,790,646
Other	16,776,540	16,740,163	10,638,158	11,267,486
<b>Total</b>	<b>\$ 576,265,524</b>	<b>\$ 573,339,789</b>	<b>\$ 418,900,324</b>	<b>\$ 404,595,527</b>

## THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$186.4 million, which is a decrease of \$20.2 million from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	\$ 49,432,380	\$ 490,412,451	\$ 497,381,157	\$ 42,463,674
County School Facilities Fund	51,309,956	15,082,466	19,351,753	47,040,669
Child Development Fund	66,787	1,720,033	1,718,192	68,628
Cafeteria Fund	20,371,152	34,497,852	35,673,510	19,195,494
Deferred Maintenance Fund	30,003	4,899,343	2,483,191	2,446,155
Building Fund	15,839,983	54,455	502,973	15,391,465
Capital Facilities Fund	10,055,234	6,070,218	6,466,478	9,658,974
Special Reserve Fund for Capital Outlay Projects	33,512,796	6,151,331	17,753,340	21,910,787
Capital Projects Fund for Blended Component Units	1,095,405	74,222	305,230	864,397
Bond Interest and Redemption Fund	16,730,125	20,726,068	18,939,228	18,516,965
Debt Service Fund for Blended Component Units	8,158,953	7,134,975	6,442,280	8,851,648
<b>Total</b>	<b>\$ 206,602,774</b>	<b>\$ 586,823,414</b>	<b>\$ 607,017,332</b>	<b>\$ 186,408,856</b>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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The primary reasons for these decreases are:

- a. The General Fund showed a decrease of \$7 million.
- b. The County School Facilities Fund showed a decrease of \$4.3 million.
- c. The Special Reserve Fund for Capital Outlay Projects showed a decrease of \$11.6 million.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 24, 2014. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 65.)

The key differences between the original budget, final budget, and actual results is attributable to:

- Re-allocation of categorical program carryover from the prior year, and
- Adjusted revenue and expenditures to project spending amounts and carryovers for current year.

As has been the practice of the District, Santa Ana Unified School District does not reallocate categorical program carryover from the prior year until the financial records for the prior year are closed. Consequently, the original budget does not include revenues or expenditures related to categorical carryover, while the final budget and actual results reflects these carryovers.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the District had \$926.1 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$29.1 million, or 3.2 percent, from last year (Table 5).

**Table 5**

	Governmental Activities	
	2014	2013
Land and construction in progress	\$ 157,685,934	\$ 183,984,346
Buildings and improvements	758,253,535	702,551,881
Furniture and equipment	10,167,137	10,499,698
<b>Total</b>	<b>\$ 926,106,606</b>	<b>\$ 897,035,925</b>

This year's additions of \$29 million (see Note 4) included several completed construction projects for critically over-crowded relief grant, modernization, new construction, QZAB solar and Proposition 39 California Clean Air, vehicles and classroom equipment. The District will use the general obligation bond proceeds for construction and modernization of existing school facilities as well as QZAB solar and Proposition 39 funds.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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Several capital projects are planned for the 2014-2015 year. We anticipate capital additions to be \$30 million for the 2014-2015 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

### Long-Term Obligations

At the end of this year, the District had \$491.3 million in long-term obligations versus \$492.0 million last year. The obligations consisted of:

**Table 6**

	Governmental Activities	
	2014	2013
General obligation bonds - net (financed with property taxes)	\$ 336,859,130	\$ 338,689,479
Certificates of participation - net	83,150,081	84,797,284
Qualified zone academy bonds	11,500,000	11,500,000
Lease certificates	999,526	1,998,225
Compensated absences	680,719	603,099
Supplemental employment retirement plan	-	787,912
Claims liability	14,651,590	18,018,606
Other postemployment benefits	43,495,672	35,569,789
<b>Total</b>	<b>\$ 491,336,718</b>	<b>\$ 491,964,394</b>

The State limits the amount of general obligation debt that unified school districts can issue to two and one-half percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$289.6 million is significantly below this \$670.6 million statutorily-imposed limit.

Other obligations include certificates of participation, qualified zone academy bonds, lease certificates, compensated absences payable, other postemployment benefits and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

### SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

- The Santa Ana Unified School District is able to feed every student breakfast and lunch each and every school day. Students are prepared and ready to learn with a nutritious meal while they are in our care because of the District's Provision 2 Status with the federal government.
- Culinary Arts students in the High School Inc. Program at Valley High School won the National Championship for the Cooking Up Change Culinary Competition three consecutive years. They competed against high schools from all over the country.
- The District received two Golden Bell Awards presented by the California School Board Association for exemplary Senior Exit Portfolio Program, and success of the High School Inc. at Valley High School program where students gain real-world experience in health care, global business, automotive, transportation, logistics, new media, culinary arts, hospitality, engineering, construction and manufacturing.

## **SANTA ANA UNIFIED SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2014**

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- Segerstrom High School won two CIF championships for Boys and Girls Water Polo teams.
- Middle College High School broke two records last school year - 47 students out of a class of 74 received their AA degrees and were eligible to enroll as college juniors this fall.
- Santa Ana School Police Department was ranked #5 in the nation for top performing school police departments by Security Magazine, a notable industry magazine for security. Special mention was given to the departments successful proactive measures to keep students and staff safe and secure during the school day.

#### **LCAP Highlights**

- We held a series of meetings called All Eyes on Learning to hear from our parents, staff, students, and community to determine the highest priorities for student success to be incorporated in our Local Control Accountability Plan.
- To ensure that we were transparent and accessible to our staff, parents, students, and community members, we held 52 meetings throughout Santa Ana on mornings, evenings, and Saturdays.
- There were 4,850 participants involved in the All Eyes on Learning Engagement meetings.
- 7,800 responses were collected by participants at the 52 meetings, website submissions, and telephone records.
- Every meeting was provided in English and Spanish, and all information was recorded and documented on our District website.
- We received a tremendous amount of positive media coverage for our proactive measures to get our community involved.
- EdSource, a highly respected educational media resource, selected Santa Ana Unified School District as a profile district to follow throughout our All Eyes on Learning meeting and cited us as having one of the most comprehensive, engagement processes than any other school district in the State of California.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The 2014-2015 budget was adopted according to the statute prior to June 30, 2014. The District's revenue and expenditure projections are reflective of the Governor's May Revise Budget Proposal. In considering the District Budget for the 2014-2015 year, the Board of Education and District Management used the following criteria:

##### **Revenue:**

1. The District's major source of income is from the Local Control Funding Formula (LCFF). LCFF funding consists of Base, Supplemental, and Concentration grants, as well as Targeted Instructional Improvement Block Grant and Home-to-School Transportation add-on programs.
2. Statutory COLA of 0.85 percent.
3. Unduplicated pupil count of 93.24 percent.
4. Completion of the Common Core Block Grant.
5. Mandated Block Grant.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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Expenditures were based on the following:

1. SAEA and CSEA settlement of salary increases of 4.0 percent retroactive to January 1, 2014 and an additional 2.0 percent effective July 1, 2014.
2. Increased costs for STRS/PERS, Health and Welfare, and Affordable Care Act.
3. Increased Special Education costs.
4. Since the 2003-2004 fiscal year, the District has been experiencing declining enrollment with losses peaking at 2,300+ students in 2005-2006. The District is projecting a decrease of enrollment by -125 for the 2014-2015 fiscal year.

Staffing ratios:

	Staffing Ratio	Enrollment
Kindergarten	31:1	4788
Grade one	30:1	4530
Grade two	30:1	4578
Grade three	30:1	4404
Grades four through five	34:1	8,277
Grades six through eight	33.5:1	11,904
Grades nine through twelve	32.5:1	14,929

The District has made budget reductions totaling \$246.3 million over the past ten years. With the implementation of the LCFF in 2013-2014, the District did not need to make any budget reductions for both the 2013-2014 and 2014-2015 fiscal years.

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Accounting, at Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California, 92701-6322, or e-mail at [christeen.betz@sausd.us](mailto:christeen.betz@sausd.us).

# SANTA ANA UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2014

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 201,645,089
Receivables	79,683,076
Stores inventories	1,428,656
Capital assets	
Land and construction in process	157,685,934
Other capital assets	934,665,827
Less: accumulated depreciation	(166,245,155)
Total Capital Assets	926,106,606
<b>Total Assets</b>	<b>1,208,863,427</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	584,027
<b>LIABILITIES</b>	
Accounts payable	31,951,585
Accrued interest payable	4,250,111
Unearned revenue	417,721
Current loan	35,000,000
Long-term obligations	
Current portion of long-term obligations	16,738,207
Noncurrent portion of long-term obligations	474,598,511
Total Long-Term Liabilities	491,336,718
<b>Total Liabilities</b>	<b>562,956,135</b>
<b>NET POSITION</b>	
Net investment in capital assets	572,952,431
Restricted for:	
Debt service	23,118,502
Capital projects	71,915,567
Educational programs	17,514,167
Other activities	33,004,381
Unrestricted	(72,013,729)
<b>Total Net Position</b>	<b>\$ 646,491,319</b>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 323,870,386	\$ 962,780	\$ 74,683,938	\$ 15,081,523	\$ (233,142,145)
Instruction-related activities:					
Supervision of instruction	28,041,944	53,385	14,808,109	-	(13,180,450)
Instructional library, media, and technology	3,767,054	182	58,179	-	(3,708,693)
School site administration	33,511,861	10,307	1,587,986	-	(31,913,568)
Pupil services:					
Home-to-school transportation	10,538,483	-	-	-	(10,538,483)
Food services	34,418,466	1,560,607	28,486,870	-	(4,370,989)
All other pupil services	24,593,275	116,832	9,508,848	-	(14,967,595)
Administration:					
Data processing	4,740,853	1,433	186,965	-	(4,552,455)
All other administration	21,090,542	65,009	3,339,871	-	(17,685,662)
Plant services	52,709,033	17,120	696,874	-	(51,995,039)
Facility acquisition and construction	1,710,349	-	-	-	(1,710,349)
Ancillary services	4,365,141	1,150	10,615	-	(4,353,376)
Community services	94,553	9	84	-	(94,460)
Enterprise services	6,355	-	-	-	(6,355)
Interest on long-term obligations	22,207,087	-	-	-	(22,207,087)
Other outgo	10,600,142	410,385	5,716,139	-	(4,473,618)
<b>Total Governmental Activities</b>	<b>\$ 576,265,524</b>	<b>\$ 3,199,199</b>	<b>\$ 139,084,478</b>	<b>\$ 15,081,523</b>	<b>(418,900,324)</b>
<b>General revenues and subventions:</b>					
Property taxes, levied for general purposes					102,160,197
Property taxes, levied for debt service					19,249,509
Taxes levied for other specific purposes					3,467,518
Federal and State aid not restricted to specific purposes					265,462,571
Interest and investment earnings					322,959
Miscellaneous					38,993,663
<b>Subtotal, General Revenues</b>					<b>429,656,417</b>
<b>Change in Net Position</b>					<b>10,756,093</b>
Net Position - Beginning as Restated					635,735,226
Net Position - Ending					<b>\$ 646,491,319</b>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2014

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Deposits and investments	\$ 37,091,765	\$ 47,993,354	\$ 93,278,358	\$ 178,363,477
Receivables	71,448,446	16,899	7,917,049	79,382,394
Due from other funds	4,563,780	-	3,905,405	8,469,185
Stores inventories	914,293	-	514,363	1,428,656
<b>Total Assets</b>	<b>\$ 114,018,284</b>	<b>\$ 48,010,253</b>	<b>\$ 105,615,175</b>	<b>\$ 267,643,712</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 25,966,311	\$ 918,617	\$ 4,659,225	\$ 31,544,153
Due to other funds	10,170,578	50,967	4,051,437	14,272,982
Current loan	35,000,000	-	-	35,000,000
Unearned revenue	417,721	-	-	417,721
<b>Total Liabilities</b>	<b>71,554,610</b>	<b>969,584</b>	<b>8,710,662</b>	<b>81,234,856</b>
<b>Fund Balances:</b>				
Nonspendable	1,084,293	-	518,182	1,602,475
Restricted	17,445,539	47,040,669	87,243,617	151,729,825
Committed	-	-	2,446,155	2,446,155
Assigned	14,244,038	-	6,696,559	20,940,597
Unassigned	9,689,804	-	-	9,689,804
<b>Total Fund Balances</b>	<b>42,463,674</b>	<b>47,040,669</b>	<b>96,904,513</b>	<b>186,408,856</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 114,018,284</b>	<b>\$ 48,010,253</b>	<b>\$ 105,615,175</b>	<b>\$ 267,643,712</b>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2014

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 186,408,856</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 1,092,351,761	
Accumulated depreciation is	(166,245,155)	
Net Capital Assets		926,106,606
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(4,250,111)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		14,327,069
Deferred amounts on refunding (difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) are included with governmental activities.		584,027
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	282,488,138	
Premium on issuance of bonds	8,919,085	
Certificates of participation	64,848,748	
Premium on issuance of certificates	1,236,871	
Qualified zone academy bonds	11,500,000	
Lease certificates	999,526	
Compensated absences (vacations)	680,719	
Net OPEB obligation	43,495,672	
In addition, the District has issued "capital appreciation" bonds and certificates. The accretion of interest on those bonds and certificates to date is the following:		
	62,516,369	
Total Long-Term Obligations		(476,685,128)
<b>Total Net Position - Governmental Activities</b>		<b>\$ 646,491,319</b>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Control Funding Formula	\$ 353,361,762	\$ -	\$ -	\$ 353,361,762
Federal sources	44,305,195	-	31,708,544	76,013,739
Other State sources	82,952,087	14,932,336	8,492,378	106,376,801
Other local sources	9,793,407	150,130	35,353,781	45,297,318
<b>Total Revenues</b>	<b>490,412,451</b>	<b>15,082,466</b>	<b>75,554,703</b>	<b>581,049,620</b>
<b>EXPENDITURES</b>				
Current				
Instruction	314,024,938	-	1,176,084	315,201,022
Instruction-related activities:				
Supervision of instruction	26,191,185	-	217,689	26,408,874
Instructional library, media and technology	3,738,413	-	-	3,738,413
School site administration	33,092,679	-	149,512	33,242,191
Pupil services:				
Home-to-school transportation	10,536,239	-	-	10,536,239
Food services	234,409	-	34,057,357	34,291,766
All other pupil services	22,790,308	-	110,040	22,900,348
Administration:				
Data processing	4,795,804	-	-	4,795,804
All other administration	18,990,435	-	1,353,322	20,343,757
Plant services	48,549,127	607	2,712,767	51,262,501
Facility acquisition and construction	676,980	19,351,146	22,516,030	42,544,156
Ancillary services	4,336,065	-	-	4,336,065
Community services	93,727	-	-	93,727
Other outgo	4,826,348	-	-	4,826,348
Debt service				
Principal	-	-	12,713,699	12,713,699
Interest and other	265,588	-	13,743,040	14,008,628
<b>Total Expenditures</b>	<b>493,142,245</b>	<b>19,351,753</b>	<b>88,749,540</b>	<b>601,243,538</b>
<b>Deficiency of Revenues</b>				
<b>Under Expenditures</b>	<b>(2,729,794)</b>	<b>(4,269,287)</b>	<b>(13,194,837)</b>	<b>(20,193,918)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	5,773,794	5,773,794
Transfers out	(4,238,912)	-	(1,534,882)	(5,773,794)
<b>Net Financing Sources (Uses)</b>	<b>(4,238,912)</b>	<b>-</b>	<b>4,238,912</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(6,968,706)</b>	<b>(4,269,287)</b>	<b>(8,955,925)</b>	<b>(20,193,918)</b>
<b>Fund Balances - Beginning</b>	<b>49,432,380</b>	<b>51,309,956</b>	<b>105,860,438</b>	<b>206,602,774</b>
<b>Fund Balances - Ending</b>	<b>\$ 42,463,674</b>	<b>\$ 47,040,669</b>	<b>\$ 96,904,513</b>	<b>\$ 186,408,856</b>

The accompanying notes are an integral part of these financial statements.

## SANTA ANA UNIFIED SCHOOL DISTRICT

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

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Total Net Change in Fund Balances - Governmental Funds \$ (20,193,918)  
Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 40,843,461	
Depreciation expense	<u>(11,772,780)</u>	
Net Expense Adjustment		29,070,681

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (retirement incentives) 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). This year, there were special termination benefits paid in the amount of \$787,912. Vacation earned was more than the amounts paid by \$77,620.

710,292

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

(7,925,883)

Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	497,509	
Amortization of deferred gain on refunding	<u>(36,502)</u>	461,007

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	8,530,000
Certificates of participation	3,185,000
Lease certificates	998,699

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2014

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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds and certificates of participation decreased by \$75,491, and second, \$8,734,957 of additional interest was accreted on the District's capital appreciation general obligation bonds and certificates of participation.

\$ (8,659,466)

An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net deficit of the Internal Service Fund is reported with governmental activities.

4,579,681

### Change in Net Position of Governmental Activities

\$ 10,756,093

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 23,281,612
Receivables	300,682
Due from other funds	7,268,835
<b>Total Current Assets</b>	<b>30,851,129</b>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	407,432
Due to other funds	1,465,038
Current portion of long-term obligations	3,498,681
<b>Total Current Liabilities</b>	<b>5,371,151</b>
<b>Noncurrent Liabilities</b>	
Noncurrent portion of long-term obligations	11,152,909
<b>NET POSITION</b>	
Restricted	14,327,069
<b>Total Net Position</b>	<b>\$ 14,327,069</b>

The accompanying notes are an integral part of these financial statements.

**SANTA ANA UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

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	<b>Governmental Activities - Internal Service Fund</b>
	<hr/>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	<hr/> <b>\$ 8,799,318</b> <hr/>
<b>OPERATING EXPENSES</b>	
Payroll costs	829,170
Professional and contract services	844
Supplies and materials	133,863
Facility rental	33,585
Other operating cost	3,300,991
<b>Total Operating Expenses</b>	<hr/> <b>4,298,453</b> <hr/>
<b>Operating Income</b>	<hr/> <b>4,500,865</b> <hr/>
<b>NONOPERATING REVENUES</b>	
Interest income	78,816
<b>Change in Net Position</b>	<hr/> <b>4,579,681</b> <hr/>
<b>Total Net Position - Beginning</b>	<hr/> <b>9,747,388</b> <hr/>
<b>Total Net Position - Ending</b>	<hr/> <b>\$ 14,327,069</b> <hr/>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014

	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS USED BY OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ (1,830,334)
Other operating cash receipts	119,387
Cash payments to other suppliers of goods or services	(435,328)
Cash payments to employees for services	4,792,816
Other operating cash payments	(6,668,007)
Net Cash Used by Operating Activities	(4,021,466)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	78,816
Net decrease in cash and cash equivalents	(3,942,650)
Cash and cash equivalents - Beginning	27,224,262
Cash and cash equivalents - Ending	\$ 23,281,612
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 4,500,865
Changes in assets and liabilities:	
Receivables	239,076
Due from other funds	(10,749,341)
Accounts payable	(267,036)
Due to other fund	5,621,986
Claims liability	(3,367,016)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (4,021,466)</b>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 2,945,270
Receivables	439
<b>Total Assets</b>	<u><u>\$ 2,945,709</u></u>
 <b>LIABILITIES</b>	
Due to student groups	\$ 1,681,988
Due to bondholders	1,263,721
<b>Total Liabilities</b>	<u><u>\$ 2,945,709</u></u>

The accompanying notes are an integral part of these financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Santa Ana Unified School District (the District) was organized in 1888 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates thirty-six elementary schools, nine middle schools, six high schools, ten special schools/programs, and three alternative high schools.

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, boards, and agencies that are not legally separate from the District. For Santa Ana Unified School District, this includes general operations, food service, and student related activities of the District.

#### Component Units

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 unit discussed below has 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 is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Santa Ana Unified School District Public Facilities Corporation (the Corporation) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations.

The Corporation's financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

---

On August 24, 2004, the District voted to establish Community Facilities District (CFD) No. 2004-1 and to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and is not included in the District-wide financial statements.

### Other Related Entities

**Charter School** The District has approved Charters for Orange County Educational Arts Academy (OCEAA), Edward B. Cole Senior Academy of Santa Ana, El Sol Science and Arts Academy of Santa Ana, NOVA Academy, and Orange County High School of the Arts pursuant to *Education Code* Section 47605. None of the Charter Schools are operated by the District, and their financial activities are not presented in the District's financial statements. The Charter Schools are operated by separate governing boards and are not considered component units of the District. The Charter Schools receive State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies.

### Basis of Presentation Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

**Capital Project Funds** The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**Special Reserve Fund for Capital Outlay Projects** The Special Reserve Capital Outlay Projects Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

**Capital Project Fund for Blended Component Units** The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

---

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

**Debt Service Fund for Blended Component Units** This fund is used for the accumulation of resources for and the retirement of principal and interest on debt issued by entities that are considered blended component units of the District under GAAP.

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

**Internal Service Fund** Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a dental, vision, and workers' compensation self-insurance fund that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the activities of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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 are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

---

**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 or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**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 balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met 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.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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### **Investments**

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county investment pools are determined by the program sponsor.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 25 to 50 years; furniture and equipment, 15 to 20; years, and vehicles, eight years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental columns of the Statement of Net Position.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

### **Current Loan**

Current loans consist of amounts outstanding at June 30, 2014, for Temporary Transfer Agreement with the County of Orange. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the loan.

### **Debt Issuance Costs, Premiums and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net Position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Fund Balances - Governmental Funds**

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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.

### Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than two percent of General Fund expenditures and other financing uses.

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$145,552,617 of restricted net position, which is restricted by enabling legislation.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the statement of activities.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### 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<sup>st</sup> 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.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$3,052,886. The decrease results from no longer deferring and amortizing bond issuance costs.

### New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014**

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

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

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 201,645,089
Fiduciary funds	2,945,270
Total Deposits and Investments	<u>\$ 204,590,359</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 1,585,200
Cash in revolving	723,819
Investments	202,281,340
Total Deposits and Investments	<u>\$ 204,590,359</u>

#### Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds and Notes	N/A	None	None
Registered State Bonds and Notes	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
U.S. Agency Securities	N/A	None	None
Farmer Credit System Bonds and Notes	N/A	None	None
Farmers Home Administration Certificates	N/A	None	None
Federal Housing Administration Debentures	N/A	None	None
Federal National Mortgage Association Obligations	N/A	None	None
Federal Home Loan Bank System Obligations	N/A	None	None
Federal Home Loan Mortgage Corporation Obligations	N/A	None	None
Student Loan Marketing Association Obligations	N/A	None	None
Resolution Funding Corporation Obligations	N/A	None	None
General Services Administration Certificates	N/A	None	None
Government National Mortgage Association Obligations	N/A	None	None
U.S. Maritime Administration Obligations	N/A	None	None
U.S. Department of Housing and Urban Development Bonds and Notes	N/A	None	None
Money Market Funds	N/A	None	None
Deposit Accounts, Time Certificates of Deposit, Negotiable Certificates of Deposit	180 days	None	None
Commercial Paper	270 days	None	None
Federal Funds and Bankers Acceptance	365 days	None	None
Repurchase Agreement	30 days	None	None
Investment Agreement	N/A	None	None
Prefunded Municipal Bonds	N/A	None	None
State Investment Fund	N/A	None	None

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Amount Reported	Fair Value	Average Maturity in Days/ Maturity Date
Orange County Investment Pool	\$ 191,432,762	\$ 189,723,535	519 days
Dreyfus Institutional Reserve Treasury Money Market Fund	2,023,080	2,023,080	46 days
INVESCO Government and Agency Money Market Fund	780	780	25 days
FORTIS FDG LLC Commercial Paper	3,532,335	3,592,426	10/27/14
FORTIS FDG LLC Commercial Paper	5,292,383	5,378,855	12/19/14
Total	<u>\$ 202,281,340</u>	<u>\$ 200,718,676</u>	

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the Orange County Investment Pool has been rated Aaa by Moody's Investor Service as of June 30, 2014. The investment in Dreyfus Institutional Reserve Treasury Money Market Fund and the investment in INVESCO Government and Agency Money Market Fund have been rated Aaa-mf by Moody's Investor Service as of June 30, 2014. The investment in Fortis LLC Commercial Paper has been rated P-1 by Moody's Investor Service as of June 30, 2014.

### Custodial Credit Risk - Deposits

This 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. However, 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). 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 agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank balance of \$1,593,622 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in Fortis LLC of \$8,824,718, the District has a custodial credit risk exposure of \$8,824,718 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government						
Categorical aid	\$ 13,169,057	\$ -	\$ 5,358,957	\$ -	\$ 18,528,014	\$ -
State Government						
LCFF apportionment	40,289,161	-	-	-	40,289,161	-
Categorical aid	10,045,234	-	475,991	-	10,521,225	-
Lottery	4,037,503	-	-	-	4,037,503	-
Local Government						
Interest	61,214	16,899	22,152	10,685	110,950	-
Regional occupational program	1,130,887	-	-	-	1,130,887	-
Other Local Sources	2,715,390	-	2,059,949	289,997	5,065,336	439
Total	<u>\$ 71,448,446</u>	<u>\$ 16,899</u>	<u>\$ 7,917,049</u>	<u>\$ 300,682</u>	<u>\$ 79,683,076</u>	<u>\$ 439</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 136,172,405	\$ -	\$ -	\$ 136,172,405
Construction in progress	47,811,941	39,398,459	65,696,871	21,513,529
Depreciated	183,984,346	39,398,459	65,696,871	157,685,934
Capital Assets Being Depreciated:				
Land improvements	24,920,609	-	-	24,920,609
Buildings and improvements	828,494,135	67,141,873	-	895,636,008
Furniture and equipment	14,109,210	-	-	14,109,210
Total Capital Assets Being Depreciated	867,523,954	67,141,873	-	934,665,827
Total Capital Assets	1,051,508,300	106,540,332	65,696,871	1,092,351,761
Less Accumulated Depreciation:				
Land improvements	17,516,720	302,756	-	17,819,476
Buildings and improvements	133,346,143	11,137,463	-	144,483,606
Furniture and equipment	3,609,512	332,561	-	3,942,073
Total Accumulated Depreciation	154,472,375	11,772,780	-	166,245,155
Governmental Activities Capital Assets, Net	\$ 897,035,925	\$ 94,767,552	\$ 65,696,871	\$ 926,106,606

Depreciation expense was charged as a direct expense to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 7,098,987
Supervision of instruction	1,436,279
All other pupil services	1,518,689
All other administration	565,093
Plant services	1,153,732
Total Depreciation Expenses Governmental Activities	<u>\$ 11,772,780</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 5 - INTERFUND TRANSACTIONS

#### Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds, and the internal service fund are as follows:

Due To	Due From				Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 9,120	\$ 3,092,630	\$ 1,462,030	\$ 4,563,780
Non-Major Governmental Funds	3,189,867	33,335	679,195	3,008	3,905,405
Internal Service Fund	6,980,711	8,512	279,612	-	7,268,835
Total	<u>\$ 10,170,578</u>	<u>\$ 50,967</u>	<u>\$ 4,051,437</u>	<u>\$ 1,465,038</u>	<u>\$ 15,738,020</u>

A balance of \$138,503 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from reimbursement of salaries and benefits paid.

A balance of \$1,496,763 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of salaries and benefits paid.

A balance of \$1,438,923 due to the General Fund from the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects resulted from reimbursement of modernization expenses.

The balance of \$2,855,363 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund resulted from the program contribution.

A balance of \$420,253 due to the Building Non-Major Governmental Fund from the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects resulted from the reclassification of building/modernization expenses.

A balance of \$6,980,711 due to the Internal Service Fund from the General Fund resulted from insurance premiums.

All remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Fund	
Non-Major Governmental Funds	\$ 4,238,912	\$ 1,534,882	\$ 5,773,794

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for repayment of indirect costs charged to program. \$ 499,667

The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for capital projects costs. 81,678

The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments. 3,657,567

The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments. 1,534,882

**Total** \$ 5,773,794

### NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 2,523,607	\$ 25,199	\$ 164,910	\$ -	\$ 2,713,716
Salaries and benefits	16,054,524	60,177	1,260,346	407,432	17,782,479
Books and supplies	1,219,353	-	72,005	-	1,291,358
Construction	65,117	833,241	2,196,903	-	3,095,261
Services and other operating payables	6,103,710	-	965,061	-	7,068,771
<b>Total</b>	<u>\$ 25,966,311</u>	<u>\$ 918,617</u>	<u>\$ 4,659,225</u>	<u>\$ 407,432</u>	<u>\$ 31,951,585</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund
Federal financial assistance	\$ 243,784
State categorical aid	26,737
Other local	147,200
Total	<u>\$ 417,721</u>

### NOTE 8 - LOAN FROM COUNTY TREASURER

On January 29, 2014, in accordance with California Constitution Article XVI, Section 6 and *Education Code* Section 42620, the District entered into a Temporary Transfer Agreement with the County of Orange, whereby the District borrowed \$35,000,000 from the County Treasurer to meet current maintenance expenses of the District. Repayment terms require full repayment be made no later than October 31 following each fiscal year. Interest on the loan will accrue and be payable by the District at a rate equal to the gross rate the Orange County Investment Pool is earning for the same period from the date of the temporary transfer plus five basis points until the entire loan and applicable interest is repaid. At June 30, 2014, the District had an outstanding loan balance in the amount of \$35,000,000.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 329,329,107	\$ 7,140,938	\$ 8,530,000	\$ 327,940,045	\$ 8,965,000
Premium on issuance	9,360,372	-	441,287	8,919,085	-
Certificates of participation	83,504,191	1,594,019	3,185,000	81,913,210	3,275,000
Premium on issuance	1,293,093	-	56,222	1,236,871	-
2002 Qualified zone academy bonds	7,000,000	-	-	7,000,000	-
2005 Qualified zone academy bonds	4,500,000	-	-	4,500,000	-
Lease certificates	1,998,225	-	998,699	999,526	999,526
Compensated absences	603,099	77,620	-	680,719	-
Supplemental employment retirement plan (SERP)	787,912	-	787,912	-	-
Claims liability	18,018,606	131,665	3,498,681	14,651,590	3,498,681
Other postemployment benefits (OPEB)	35,569,789	15,570,927	7,645,044	43,495,672	-
	<u>\$ 491,964,394</u>	<u>\$ 24,515,169</u>	<u>\$ 25,142,845</u>	<u>\$ 491,336,718</u>	<u>\$ 16,738,207</u>

Payments made on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the certificates of participation are made by the Debt Service Fund for Blended Component Units. Lease certificate payments are made from the Capital Facilities Fund. The accrued vacation will be paid by the fund for which the employees worked. Supplemental early retirement plan will be paid by the General Fund. The claims liability is paid from the Internal Service Fund. Other postemployment benefits are generally paid by the General Fund.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Accreted	Redeemed	Bonds Outstanding June 30, 2014
10/30/02	08/01/32	2.68-5.530%	\$ 50,828,156	\$ 47,813,806	\$ 2,418,021	\$ 3,515,000	\$ 46,716,827
08/06/08	08/01/33	3.50-5.510%	99,997,856	96,007,907	968,091	950,000	96,025,998
11/12/09	08/01/29	3.00-4.250%	49,775,000	44,935,000	-	1,930,000	43,005,000
11/20/09	08/01/47	6.54-7.337%	34,861,114	43,963,033	3,395,661	-	47,358,694
11/20/09	09/15/26	5.910%	19,240,000	19,240,000	-	-	19,240,000
12/02/10	08/01/20	3.00-5.00%	8,591,011	9,044,361	359,165	930,000	8,473,526
12/02/10	08/01/28	6.450%	17,535,000	17,535,000	-	-	17,535,000
12/02/10	08/01/41	6.80-7.10%	19,775,000	19,775,000	-	-	19,775,000
12/02/10	08/01/22	2.50-5.00%	12,290,000	11,295,000	-	720,000	10,575,000
09/19/12	08/01/32	2.00-3.40%	19,720,000	19,720,000	-	485,000	19,235,000
				<u>\$ 329,329,107</u>	<u>\$ 7,140,938</u>	<u>\$ 8,530,000</u>	<u>\$ 327,940,045</u>

### 1999 General Obligation Bonds, Series 2002B

On October 30, 2002, the District issued capital appreciation bonds in the amount of \$50,828,156 (accreting to \$110,565,000 at maturity) in order to finance the acquisition, construction, and improvement of school sites and facilities, including relieving overcrowding, improving student safety, repairing and renovating schools, and replacing portables with permanent classrooms. The bonds have a final maturity to occur on August 1, 2032, and yield an interest rate of 2.68 to 5.53 percent. At June 30, 2014, the principal balance outstanding was \$46,716,827 (including accreted interest to date).

### 2008 General Obligation Bonds, Series A

On August 6, 2008, the District issued in \$94,235,000 in current interest bonds and \$5,762,856 in capital appreciation bonds (accreting to \$22,700,000 at maturity) with an original premium of \$6,022,280 and cost of issuance of \$1,493,943. The bonds were issued to finance the acquisition, construction, and improvement of school sites and facilities, improving student safety, repairing and renovating schools, and replacing portables with modern classrooms. The bonds have a final maturity to occur on August 1, 2033, and yield an interest rate of 3.50 to 5.51 percent. At June 30, 2014, the principal balance outstanding was \$96,025,998 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2014, was \$4,576,935.

### 2009 General Obligation Refunding Bonds

On November 12, 2009, the District issued \$49,775,000 in current interest bonds. The bonds were issued for the purpose of a partial refunding of \$46,220,000 of the District's outstanding Election of 1999, General Obligation Bond, Series 2000. The bonds have a final maturity to occur on August 1, 2029 and yield interest rates ranging between 3.00 to 4.25 percent. At June 30, 2014, the principal balance outstanding was \$43,005,000.

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014**

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### **2008 General Obligation Bonds, Series B**

On November 20, 2009, the District issued capital appreciation bonds in the amount of \$34,861,114 (accreting to \$418,255,000 at maturity) with an original premium of \$1,809,422 and cost of issuance of \$733,729. The bonds were issued to finance the acquisition, construction, and improvement of the school sites and facilities, improving student safety, repairing and renovating schools, and replacing portables with modern classrooms. The bonds have a final maturity to occur on August 1, 2047, and yield an interest rate of 6.54 to 7.337 percent. At June 30, 2014, the principal balance outstanding was \$47,358,694 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2014, was \$1,595,148.

### **2008 General Obligation Bonds, Series C**

On November 20, 2009, the District issued \$19,240,000 in qualified school construction bonds under the provisions of the American Recovery and Reinvestment Act of 2009. The bonds were issued to finance the acquisition, construction, and improvement of the school sites and facilities, improving student safety, repairing and renovating schools, and replacing portables with modern classrooms. The bonds have a final maturity to occur on September 15, 2026, and yield an interest rate of 5.91 percent. At June 30, 2014, the principal balance outstanding was \$19,240,000.

### **2008 General Obligation Bonds, Series D, Series E, Series F**

On December 2, 2010, the District issued \$6,445,000 in current interest bonds and \$2,146,011 (accreting to \$5,875,000 at maturity) in capital appreciation bonds with Series D. The bonds were issued to finance new construction and additions to and modernization of school facilities for the District. The bonds have a final maturity to occur on August 1, 2020 and yield an interest rate of 3.00 to 5.00 percent. At June 30, 2014, the principal balance outstanding was \$8,473,526 (including accreted interest to date).

On December 2, 2010, the District issued \$17,535,000 in current interest bonds with Series F. The bonds were issued to finance new construction and additions to and modernization of school facilities for the District. The bonds have a final maturity to occur on August 1, 2028 and yield an interest rate of 6.45 percent. The District has designated the Series F Bonds as "qualified school construction bonds" under Section 54F of the Internal Revenue Code of 1986, as amended, making the District eligible for cash subsidy payments from the United States Treasury. At June 30, 2014, the principal balance outstanding was \$17,535,000. Unamortized premium received on the bonds as of June 30, 2014 was \$2,096,332.

On December 2, 2010, the District issued \$19,775,000 in current interest bonds with Series E. The bonds were issued to finance new construction and additions to and modernization of school facilities for the District. The bonds have a final maturity to occur on August 1, 2041 and yield an interest rate of 6.80 to 7.10 percent. The District has designated the Series E Bonds as "Build America Bonds" under Section 55AA of the Internal Revenue Code of 1986, as amended, making the District eligible for cash subsidy payments from the United States Treasury. At June 30, 2014, the principal balance outstanding was \$19,775,000.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 2010 General Obligation Refunding Bonds

On December 2, 2010, the District issued \$12,290,000 in current interest bonds. The bonds were issued for the purpose of a partial refunding of \$12,300,000 of the District's outstanding Election of 1999, General Obligation Bonds, Series 2002. The bonds have a final maturity to occur on August 1, 2022 and yield interest rates ranging between 2.50 to 5.00 percent. At June 30, 2014, the principal balance outstanding was \$10,575,000. Unamortized premium received on the bonds as of June 30, 2014 was \$650,670.

### 2012 General Obligation Refunding Bonds

On September 19, 2012, the District issued \$19,720,000 in current interest bonds. The bonds were issued for the purpose of refunding \$19,050,000 of the District's outstanding 1999 General Obligation Bonds, Series 2002. The bonds have a final maturity to occur on August 1, 2032 and yield interest rates ranging between 2.00 to 3.40 percent. At June 30, 2014, the principal balance outstanding was \$19,235,000.

### Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Current Interest at Maturity	Total
2015	\$ 8,886,256	\$ 78,744	\$ 10,257,409	\$ 19,222,409
2016	9,369,044	235,956	10,051,384	19,656,384
2017	9,781,329	393,671	9,811,965	19,986,965
2018	10,287,135	547,865	9,528,946	20,363,946
2019	10,300,750	1,349,250	10,196,926	21,846,926
2020-2024	49,481,257	17,338,743	57,318,443	124,138,443
2025-2029	89,997,441	11,572,559	37,174,170	138,744,170
2030-2034	80,796,237	17,648,763	13,491,154	111,936,154
2035-2039	24,040,258	75,009,742	3,681,635	102,731,635
2040-2044	7,927,021	18,627,979	881,210	27,436,210
2045-2048	27,073,317	275,541,683	-	302,615,000
Total	<u>\$ 327,940,045</u>	<u>\$ 418,344,955</u>	<u>\$ 162,393,242</u>	<u>\$ 908,678,242</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### Certificates of Participation

The outstanding certificates of participation debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2013	Accreted	Redeemed	Outstanding June 30, 2014
Oct-99	04/01/37	3.60-6.25%	\$ 17,691,700	\$ 27,554,191	\$ 1,594,019	\$ 1,055,000	\$ 28,093,210
May-07	04/01/37	3.56-4.41%	29,725,000	25,950,000	-	875,000	25,075,000
Dec-12	12/01/35	4.25-5.20%	30,000,000	30,000,000	-	1,255,000	28,745,000
				<u>\$ 83,504,191</u>	<u>\$ 1,594,019</u>	<u>\$ 3,185,000</u>	<u>\$ 81,913,210</u>

In October 1999, the Corporation issued the 1999 Certificates of Participation in the amount of \$17,691,700 with interest rates ranging from 3.60 to 6.25 percent. The certificates have a final maturity to occur on April 1, 2037. These certificates were issued for the construction of two elementary schools. At June 30, 2014, the principal balance outstanding was \$28,093,210, including accreted interest on the capital appreciation certificates.

Year Ending June 30,	Principal Including Accreted Interest	Accreted Interest	Current Interest	Total
2015	\$ 1,038,850	\$ 61,150	\$ 101,475	\$ 1,201,475
2016	1,024,728	125,272	101,475	1,251,475
2017	1,798,981	346,019	101,475	2,246,475
2018	1,752,476	467,524	101,475	2,321,475
2019	1,703,553	591,447	101,475	2,396,475
2020-2024	7,772,802	6,472,198	507,375	14,752,375
2025-2029	6,644,567	9,960,433	507,375	17,112,375
2030-2034	3,488,445	7,036,555	507,375	11,032,375
2035-2037	2,868,808	2,941,192	268,400	6,078,400
Total	<u>\$ 28,093,210</u>	<u>\$ 28,001,790</u>	<u>\$ 2,297,900</u>	<u>\$ 58,392,900</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

In May 2007, the Corporation issued the 2007 Certificates of Participation in the amount of \$29,725,000 with interest rates ranging from 3.56 to 4.41 percent. The certificates have a final maturity to occur on April 1, 2037. The certificates were issued for the acquisition and construction of certain infrastructure improvements, as well as to refinance the Energy Savings Project and the 1998 and 1999 Financing Projects. At June 30, 2014, the principal balance outstanding was \$25,075,000.

Year Ending June 30,	Principal	Current Interest	Total
2015	\$ 925,000	\$ 1,288,634	\$ 2,213,634
2016	980,000	1,242,384	2,222,384
2017	1,015,000	1,193,384	2,208,384
2018	1,085,000	1,151,515	2,236,515
2019	400,000	1,097,265	1,497,265
2020-2024	2,390,000	5,184,690	7,574,690
2025-2029	4,145,000	4,468,013	8,613,013
2030-2034	7,260,000	2,986,463	10,246,463
2035-2037	6,875,000	779,363	7,654,363
Total	<u>\$ 25,075,000</u>	<u>\$ 19,391,711</u>	<u>\$ 44,466,711</u>

In December 2012, the Corporation issued the 2012 Certificates of Participation in the amount of \$30,000,000, pursuant to a lease agreement with the District and Santa Ana Unified School District Public Facilities Corporation, with interest rates ranging from 4.25 to 5.20 percent. The certificates have a final maturity to occur on December 1, 2035. The certificates were issued to implement certain District's facilities projects. At June 30, 2014, the principal balance outstanding was \$28,745,000.

Year Ending June 30,	Principal	Current Interest	Total
2015	\$ 1,250,000	\$ 1,286,955	\$ 2,536,955
2016	1,255,000	1,233,724	2,488,724
2017	1,260,000	1,180,280	2,440,280
2018	1,265,000	1,126,624	2,391,624
2019	1,270,000	1,072,755	2,342,755
2020-2024	6,425,000	4,548,306	10,973,306
2025-2029	6,550,000	3,164,763	9,714,763
2030-2034	6,715,000	1,581,115	8,296,115
2035-2036	2,755,000	143,650	2,898,650
Total	<u>\$ 28,745,000</u>	<u>\$ 15,338,172</u>	<u>\$ 44,083,172</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Qualified Zone Academy Bonds

In December 2002, the District, pursuant to a lease/purchase agreement with the Corporation, issued \$7,000,000 of 2002 Lease Revenue Bonds, Qualified Zone Academy Bonds (QZAB) to provide funds to finance certain improvements, equipment, and other educational development programs of the District. The bonds mature on December 19, 2016, with the entire principal amount of \$7,000,000 due at this date. The bonds do not bear interest. In lieu of receiving periodic interest payments, eligible taxpayers who are bondholders will receive an annual Federal income tax credit. The annual base rental payment of \$395,183 to begin December 19, 2002, will be deposited with Bank of New York into an interest generating investment to produce sufficient income to repay the \$7,000,000 certificates upon maturity on December 19, 2016. At June 30, 2014, the principal balance outstanding was \$7,000,000.

In October 2005, the District issued \$4,500,000 of 2005 QZAB to provide funds to finance certain improvements, equipment, and other educational development programs of the District. The bonds mature on October 26, 2021. The annual base rental payment of \$230,810 to begin October 15, 2005, will be deposited with Bank of New York into an interest generating investment to produce sufficient income to repay the \$4,500,000 certificates upon maturity on October 26, 2021. At June 30, 2014, the principal balance outstanding was \$4,500,000.

### Lease Certificates

On August 1, 2009, the District refinanced the outstanding balance of the 1990 Certificates of Participation by purchasing 2009 Current Interest Lease Certificates in the amount of \$5,118,911 with an interest rate of 3.83 percent. At June 30, 2014, the principal balance outstanding was \$999,526.

Year Ending	Principal	Interest	Total
June 30,			
2015	\$ 999,526	\$ 38,282	\$ 1,037,808

### Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2014, amounted to \$680,719.

### Supplemental Employment Retirement Plan

The District previously entered into an agreement for a supplemental retirement benefits plan for certain certificated and classified employees of the District. Eligibility requirements are that employees must have 10 years of service with the District, a minimum of three consecutive years prior to retirement, and must be 55 years of age. The agreement called for the District to make five equal installment payments into an annuity contract for the employees. During the year, the District fulfilled its obligation and did not have any outstanding balance.

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014**

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### **Claims Liability**

Liabilities for claims for all injury and compensation cases are established by the District's independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon the closing of each claim. Ending liabilities balances of \$14,651,590 were discounted at a rate of 0.5 percent and were accepted as estimated by the District's administrator.

### **Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2014, was \$16,740,624, and contributions made by the District during the year were \$7,645,044. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$1,600,640 and (\$2,770,337), respectively, which resulted in an increase to the net OPEB obligation of \$7,925,883. As of June 30, 2014, the net OPEB obligation was \$43,495,672. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

### **NOTE 10 - 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 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 \$11,220,000 as of June 30, 2014, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 170,000	\$ -	\$ 3,819	\$ 173,819
Stores inventories	914,293	-	514,363	1,428,656
Total Nonspendable	1,084,293	-	518,182	1,602,475
<b>Restricted</b>				
Legally restricted programs	17,445,539	-	68,628	17,514,167
Cafeteria program	-	-	18,677,312	18,677,312
Capital projects	-	47,040,669	41,129,064	88,169,733
Debt services	-	-	27,368,613	27,368,613
Total Restricted	17,445,539	47,040,669	87,243,617	151,729,825
<b>Committed</b>				
Deferred maintenance program	-	-	2,446,155	2,446,155
Total Committed	-	-	2,446,155	2,446,155
<b>Assigned</b>				
Capital projects	-	-	6,696,559	6,696,559
Other program balances	14,244,038	-	-	14,244,038
Total Assigned	14,244,038	-	6,696,559	20,940,597
<b>Unassigned</b>				
Reserve for economic uncertainties	9,689,804	-	-	9,689,804
Total Unassigned	9,689,804	-	-	9,689,804
<b>Total</b>	<b>\$ 42,463,674</b>	<b>\$ 47,040,669</b>	<b>\$ 96,904,513</b>	<b>\$ 186,408,856</b>

### NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

#### Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Santa Ana Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 650 retirees and beneficiaries currently receiving benefits and 4,169 active plan members.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013-2014, the District contributed \$7,645,044 to the Plan, all of which was used for current premiums (approximately 100 percent of total premiums).

### Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 16,740,624
Interest on net OPEB obligation	1,600,640
Adjustment to annual required contribution	<u>(2,770,337)</u>
Annual OPEB cost (expense)	15,570,927
Contributions made	<u>(7,645,044)</u>
Increase in net OPEB obligation	7,925,883
Net OPEB obligation, beginning of year	<u>35,569,789</u>
Net OPEB obligation, end of year	<u><u>\$ 43,495,672</u></u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 12,338,411	\$ 8,932,787	72%	\$ 32,197,159
2013	12,289,010	8,916,380	73%	35,569,789
2014	15,570,927	7,645,044	49%	43,495,672

### Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
August 1, 2014	\$ -	\$ 120,493,717	\$ 120,493,717	0%	\$ 298,984,148	40%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

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

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

In the August 1, 2014 actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial ten percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2014, was 24 years. The actuarial value of assets was not determined in this actuarial valuation.

### NOTE 13 - RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a \$1 million self-insured retention (SIR), and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to \$5 million. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 16 for additional information relating to public entity risk pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

#### Claims Liabilities

The District records an estimated liability for indemnity torts and other 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 fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

	Workers' Compensation	Property and Liability
Liability Balance, July 1, 2012	\$ 18,216,871	\$ 328,892
Claims and changes in estimates	2,632,273	545,518
Claims payments	(3,254,948)	(450,000)
Liability Balance, June 30, 2013	17,594,196	424,410
Claims and changes in estimates	(444,234)	575,899
Claims payments	(3,041,123)	(457,558)
Liability Balance, June 30, 2014	\$ 14,108,839	\$ 542,751
Assets available to pay claims at June 30, 2014	\$ 16,950,641	\$ 3,098,301

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014**

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### **NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

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

#### **CalSTRS**

##### **Plan Description**

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CALSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

##### **Funding Policy**

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$18,515,666, \$18,945,046, and \$19,189,341, respectively, and equal 100 percent of the required contributions for each year.

#### **CalPERS**

##### **Plan Description**

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$8,530,863, \$6,883,630, and \$7,605,222, respectively, and equal 100 percent of the required contributions for each year.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$12,890,963 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2014.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Overcrowded Relief Program		
Franklin Elementary	\$ 7,229,492	08/31/15
King Elementary	5,518,235	08/31/15
Wilson Elementary	4,354,477	08/31/15
Modernization Projects		
Carr Intermediate	418,693	11/30/14
Willard Intermediate	903,668	12/31/14
Wilson Elementary	386,862	06/30/15
Mitchell Child Development Center	3,070,989	08/31/16
Other Projects		
Carr Intermediate	2,484,112	01/31/15
Century High	3,484,474	01/31/15
Harvey Elementary	529,650	02/28/15
Kennedy Elementary	490,500	02/28/15
Monte Vista Elementary	415,229	02/28/15
Thorpe Elementary	110,687	07/31/15
Valley High	2,708,544	09/30/15
Segerstrom High	729,194	10/31/15
	<u>\$ 32,834,806</u>	

### NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2014, the District made payments of \$2,170,488 and \$169,262 to ASCIP and SELF, respectively for property and liability coverage.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

#### Statement of Net Position

Net Position - Beginning	\$ 638,788,112
Restatement/cost of issuance	<u>(3,052,886)</u>
Net Position - Beginning as Restated	<u><u>\$ 635,735,226</u></u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# SANTA ANA UNIFIED SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	\$ 288,660,809	\$ 354,456,890	\$ 353,361,762	\$ (1,095,128)
Federal sources	40,580,292	51,080,237	44,305,195	(6,775,042)
Other State sources	118,497,545	70,243,287	82,952,087	12,708,800
Other local sources	8,425,338	10,608,253	9,793,407	(814,846)
Total Revenues <sup>1</sup>	456,163,984	486,388,667	490,412,451	4,023,784
EXPENDITURES				
Current				
Certificated salaries	234,562,985	239,189,224	236,002,836	3,186,388
Classified salaries	67,701,733	70,604,683	71,250,363	(645,680)
Employee benefits	97,496,815	96,668,188	109,315,419	(12,647,231)
Books and supplies	14,033,946	26,331,342	19,026,757	7,304,585
Services and operating expenditures	51,227,048	58,563,622	52,613,257	5,950,365
Other outgo	539,202	3,877,931	3,492,494	385,437
Capital outlay	2,184,983	1,437,025	1,175,531	261,494
Debt service - principal	1,250,223	-	-	-
Debt service - interest	76,532	251,524	265,588	(14,064)
Total Expenditures <sup>1</sup>	469,073,467	496,923,539	493,142,245	3,781,294
Excess (Deficiency) of Revenues Over Expenditures	(12,909,483)	(10,534,872)	(2,729,794)	7,805,078
Other Financing Sources (Uses)				
Transfers in	-	2,861,049	-	(2,861,049)
Transfers out	(7,415,526)	(4,342,274)	(4,238,912)	103,362
Net Financing Sources (Uses)	(7,415,526)	(1,481,225)	(4,238,912)	(2,757,687)
NET CHANGE IN FUND BALANCES	(20,325,009)	(12,016,097)	(6,968,706)	5,047,391
Fund Balances - Beginning	49,432,380	49,432,380	49,432,380	-
Fund Balances - Ending	\$ 29,107,371	\$ 37,416,283	\$ 42,463,674	\$ 5,047,391

<sup>1</sup> On behalf payments of \$12,890,963 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

**SANTA ANA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2014**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
July 1, 2009	\$ -	\$ 119,052,495	\$ 119,052,495	0%	\$ 300,812,763	40%
July 1, 2011	-	120,452,385	120,452,385	0%	301,041,077	40%
August 1, 2014	-	120,493,717	120,493,717	0%	298,984,148	40%

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***SUPPLEMENTARY INFORMATION***

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# SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Fund for the Improvement of Education - Fitness for All No Child Left Behind Act (NCLB)	84.215F	{1}	\$ 344,020
Title I, Part A - Low Income and Neglected	84.010	14329	16,534,703
Title I, Part G - Advance Placement Test Fee Reimbursement Program	84.330	14831	23,630
Title I, Part C Cluster:			
Title I, Part C - Migrant Education Summer Program	84.011	14768	27,349
Title I, Part C - Migrant Education (Regular and Summer Program)	84.011	14326	269,142
Total Title I, Part C Cluster			296,491
School Improvement Grants Cluster:			
Title I - School Improvement Grant for QEIA Schools	84.377	14971, 15123	1,174,367
ARRA Title I - School Improvement Grant for QEIA Schools	84.388	15124, 15127	1,808,308
Total School Improvement Grants Cluster			2,982,675
Title II, Part A - Improving Teacher Quality	84.367	14341	2,411,527
Title III - Limited English Proficient Student Program	84.365	10084	3,128,308
Title IV, Part B, 21st Century Community Learning Centers	84.287	14788	577,030
Special Education (IDEA) Cluster:			
Local Assistance	84.027A	13379	9,059,923
Preschool Local Entitlement	84.027A	13682	744,903
Federal Preschool	84.173A	13430	344,477
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	580,689
Pre-Kindergarten Staff Development	84.173A	13431	527
Alternative Dispute Resolution, Part B, Sec 611	84.027	13007	16,127
Total Special Education (IDEA) Cluster			10,746,646
Early Intervention Grants	84.181	23761	282,678
Passed through Central County Regional Occupancy Program:			
Carl D. Perkins Vocational and Technical Education Act			
Post Secondary and Adult Education	84.048	13923	443,611
Passed through Rancho Santiago Community College District:			
California State Gear-Up Program	84.334A	10088	35,677
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.158	10006	264,199
Total U.S. Department of Education			38,071,195

{1} Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	\$ 20,010,417
Especially Needy Breakfast Program	10.553	13390	3,977,152
Commodities	10.555	13389	2,416,565
Seamless Summer Feeding Program	10.559	13004	1,351,202
Total Child Nutrition Cluster			<u>27,755,336</u>
Child Nutrition: Fresh Fruit and Vegetable Program	10.582	14968	1,028,059
State Administrative Matching Grants for the Supplemental Nutrition Assistance	10.561	{1}	105,675
Child Care Food	10.558	13393	1,519,102
Total U.S. Department of Agriculture			<u>30,408,172</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services:			
Medical Assistance Program:			
Medical Billing Option	93.778	10013	2,689,251
Passed through CDE:			
Child Care Mandatory and Matching Funds of the Child Care Fund	93.596	13609	86,901
Passed through Orange Department of Education:			
CalWORKs	93.558	{1}	10,077
Head Start	93.600	10016	3,421,257
Total U.S. Department of Health and Human Services			<u>6,207,486</u>
<b>NATIONAL SCIENCE FOUNDATION</b>			
Passed through Regents of the University of California, Irvine:			
Irvine Mathematics Project	47.076	{1}	128,383
<b>U.S. DEPARTMENT OF JUSTICE</b>			
COPS Secure our Schools	16.710	{1}	134,358
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Junior Reserve Officer Training Corps	12.000	{1}	179,220
Total Expenditures of Federal Awards			<u>\$ 75,128,814</u>

{1} Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

## SANTA ANA UNIFIED SCHOOL DISTRICT

### LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

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#### ORGANIZATION

The Santa Ana Unified School District was organized in 1888, and consists of an area comprising approximately 24 square miles. The District operates thirty-six elementary schools, nine middle schools, six high schools, ten special schools/programs, and three alternative high schools.

#### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Audrey Yamagata-Noji, Ph.D.	President	2014
José Alfredo Hernández, J.D.	Vice President	2016
Rob Richardson	Clerk	2016
Cecilia Iglesias	Member	2016
John Palacio	Member	2014

#### ADMINISTRATION

Richard L. Miller, Ph.D.	Superintendent
David Haglund	Deputy Superintendent, Educational Services
Stefanie P. Phillips, Ed.D.	Deputy Superintendent, Operations
Michelle Rodriguez, Ed.D.	Assistant Superintendent, Elementary Education
Dawn Miller	Assistant Superintendent, Secondary Education
Doreen Lohnes	Assistant Superintendent, Support Services
Joe Dixon	Assistant Superintendent, Facilities/Governmental Relations
Mark McKinney	Associate Superintendent, Human Resources

See accompanying note to supplementary information.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2014

	Amended Second Period Report	Amended Annual Report
Regular ADA		
Transitional kindergarten through third	17,756.66	17,734.39
Fourth through sixth	11,992.95	11,966.38
Seventh and eighth	7,651.36	7,631.75
Ninth through twelfth	14,137.46	14,024.94
Total Regular ADA	51,538.43	51,357.46
Extended Year Special Education		
Transitional kindergarten through third	47.75	47.75
Fourth through sixth	26.02	26.02
Seventh and eighth	4.55	4.55
Ninth through twelfth	60.96	60.96
Total Extended Year Special Education	139.28	139.28
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.33	1.70
Fourth through sixth	4.51	4.29
Seventh and eighth	2.81	2.72
Ninth through twelfth	12.96	13.13
Total Special Education, Nonpublic, Nonsectarian Schools	21.61	21.84
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.15	0.15
Fourth through sixth	0.89	0.89
Seventh and eighth	0.37	0.37
Ninth through twelfth	2.46	2.46
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.87	3.87
Community Day School		
Seventh and eighth	17.33	17.72
Ninth through twelfth	55.19	54.71
Total Community Day School	72.52	72.43
Total ADA	51,775.71	51,594.88

See accompanying note to supplementary information.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2013-14 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	35,790	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			50,510	180	-	Complied
Grade 2			50,510	180	-	Complied
Grade 3			50,510	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			54,100	180	-	Complied
Grade 5			54,100	180	-	Complied
Grade 6			54,100	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			54,350	180	-	Complied
Grade 8			54,350	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			64,800	180	-	Complied
Grade 10			64,800	180	-	Complied
Grade 11			64,800	180	-	Complied
Grade 12			64,800	180	-	Complied

See accompanying note to supplementary information.

**SANTA ANA UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

	(Budget) 2015 <sup>1</sup>	2014	2013	2012
<b>GENERAL FUND</b>				
Revenues	\$ 517,847,382	\$ 490,412,451	\$ 466,715,053	\$ 486,418,636
Other sources	-	-	13,743,902	-
Total Revenues and Other Sources	517,847,382	490,412,451	480,458,955	486,418,636
Expenditures	523,709,964	493,142,245	493,411,065	496,095,539
Other uses and transfers out	4,739,935	4,238,912	8,230,150	6,445,735
Total Expenditures and Other Uses	528,449,899	497,381,157	501,641,215	502,541,274
DECREASE IN FUND BALANCE	\$ (10,602,517)	\$ (6,968,706)	\$ (21,182,260)	\$ (16,122,638)
ENDING FUND BALANCE	\$ 31,861,157	\$ 42,463,674	\$ 49,432,380	\$ 70,614,640
AVAILABLE RESERVES <sup>2</sup>	\$ 10,562,670	\$ 9,689,804	\$ 9,966,855	\$ 23,461,020
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	2.00%	2.00%	2.04%	4.78%
LONG-TERM OBLIGATIONS	N/A	\$ 491,336,718	\$ 491,964,394	\$ 463,043,862
K-12 AVERAGE DAILY ATTENDANCE AT P-2	51,209	51,776	51,653	51,787

The General Fund balance has decreased by \$28,150,966 over the past two years. The fiscal year 2014-2015 budget projects a further decrease of \$10,602,517 (25.0 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in all of the past three years and anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have increased by \$28,292,856 over the past two years.

Average daily attendance has decreased by 11 over the past two years. An additional decline of 567 ADA is anticipated during fiscal year 2014-2015.

<sup>1</sup> Budget 2015 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> On behalf payments of \$12,890,963, \$12,134,159, and \$11,295,005 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2014, 2013, and 2012, respectively.

See accompanying note to supplementary information.

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# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2014**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Edward B. Cole Senior Academy of Santa Ana	No
El Sol Science and Arts Academy of Santa Ana	No
NOVA Academy	No
Orange County High School of the Arts	No
Orange County Educational Arts Academy (OCEAA)	No

See accompanying note to supplementary information.

**SANTA ANA UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Building Fund</b>
<b>ASSETS</b>				
Deposits and investments	\$ 127,830	\$ 16,475,662	\$ 4,416	\$ 14,961,219
Receivables	169,099	5,703,379	918	4,971
Due from other funds	10,153	30,823	2,855,363	453,797
Stores inventories	-	514,363	-	-
<b>Total Assets</b>	<b>\$ 307,082</b>	<b>\$ 22,724,227</b>	<b>\$ 2,860,697</b>	<b>\$ 15,419,987</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 77,473	\$ 1,786,753	\$ 330,263	\$ 26,000
Due to other funds	160,981	1,741,980	84,279	2,522
<b>Total Liabilities</b>	<b>238,454</b>	<b>3,528,733</b>	<b>414,542</b>	<b>28,522</b>
<b>Fund Balances:</b>				
Nonspendable	-	518,182	-	-
Restricted	68,628	18,677,312	-	15,391,465
Committed	-	-	2,446,155	-
Assigned	-	-	-	-
<b>Total Fund Balances</b>	<b>68,628</b>	<b>19,195,494</b>	<b>2,446,155</b>	<b>15,391,465</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 307,082</b>	<b>\$ 22,724,227</b>	<b>\$ 2,860,697</b>	<b>\$ 15,419,987</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>Special Reserve Fund For Capital Outlay Projects</b>	<b>Capital Projects Fund for Blended Component Units</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund for Blended Component Units</b>	<b>Total Non-Major Governmental Funds</b>
\$ 8,865,125	\$ 24,638,169	\$ 833,919	\$ 18,516,965	\$ 8,855,053	\$ 93,278,358
581,290	1,457,349	42	-	1	7,917,049
216,636	184,882	57,157	-	96,594	3,905,405
-	-	-	-	-	514,363
<u>\$ 9,663,051</u>	<u>\$ 26,280,400</u>	<u>\$ 891,118</u>	<u>\$ 18,516,965</u>	<u>\$ 8,951,648</u>	<u>\$ 105,615,175</u>
\$ 3,868	\$ 2,413,147	\$ 21,721	\$ -	\$ -	\$ 4,659,225
209	1,956,466	5,000	-	100,000	4,051,437
<u>4,077</u>	<u>4,369,613</u>	<u>26,721</u>	<u>-</u>	<u>100,000</u>	<u>8,710,662</u>
-	-	-	-	-	518,182
9,658,974	15,215,924	862,701	18,516,965	8,851,648	87,243,617
-	-	-	-	-	2,446,155
-	6,694,863	1,696	-	-	6,696,559
<u>9,658,974</u>	<u>21,910,787</u>	<u>864,397</u>	<u>18,516,965</u>	<u>8,851,648</u>	<u>96,904,513</u>
<u>\$ 9,663,051</u>	<u>\$ 26,280,400</u>	<u>\$ 891,118</u>	<u>\$ 18,516,965</u>	<u>\$ 8,951,648</u>	<u>\$ 105,615,175</u>

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
<b>REVENUES</b>				
Federal sources	\$ 86,901	\$ 30,302,506	\$ -	\$ -
Other State sources	1,602,718	2,004,792	4,793,615	-
Other local sources	30,414	1,690,887	105,728	54,455
<b>Total Revenues</b>	<b>1,720,033</b>	<b>33,998,185</b>	<b>4,899,343</b>	<b>54,455</b>
<b>EXPENDITURES</b>				
Current				
Instruction	1,176,084	-	-	-
Instruction-related activities:				
Supervision of instruction	217,689	-	-	-
School site administration	149,512	-	-	-
Pupil services:				
Food services	-	34,057,357	-	-
All other pupil services	110,040	-	-	-
Administration:				
All other administration	64,867	1,254,923	-	-
Plant services	-	322,767	2,398,486	6,964
Facility acquisition and construction	-	38,463	84,705	496,009
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<b>1,718,192</b>	<b>35,673,510</b>	<b>2,483,191</b>	<b>502,973</b>
<b>Excess (Deficiency) of</b>				
<b>Revenues Over/(Under) Expenditures</b>	<b>1,841</b>	<b>(1,675,325)</b>	<b>2,416,152</b>	<b>(448,518)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	499,667	-	-
Transfers out	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>499,667</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,841</b>	<b>(1,175,658)</b>	<b>2,416,152</b>	<b>(448,518)</b>
<b>Fund Balances - Beginning</b>	<b>66,787</b>	<b>20,371,152</b>	<b>30,003</b>	<b>15,839,983</b>
<b>Fund Balances - Ending</b>	<b>\$ 68,628</b>	<b>\$ 19,195,494</b>	<b>\$ 2,446,155</b>	<b>\$ 15,391,465</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Capital Projects Fund for Blended Component Units</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund for Blended Component Units</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 1,319,137	\$ -	\$ 31,708,544
-	-	-	91,253	-	8,492,378
6,070,218	6,069,653	74,222	19,315,678	1,942,526	35,353,781
6,070,218	6,069,653	74,222	20,726,068	1,942,526	75,554,703
-	-	-	-	-	1,176,084
-	-	-	-	-	217,689
-	-	-	-	-	149,512
-	-	-	-	-	34,057,357
-	-	-	-	-	110,040
33,532	-	-	-	-	1,353,322
63,679	(79,254)	125	-	-	2,712,767
5,294,036	16,297,712	305,105	-	-	22,516,030
998,699	-	-	8,530,000	3,185,000	12,713,699
76,532	-	-	10,409,228	3,257,280	13,743,040
6,466,478	16,218,458	305,230	18,939,228	6,442,280	88,749,540
(396,260)	(10,148,805)	(231,008)	1,786,840	(4,499,754)	(13,194,837)
-	81,678	-	-	5,192,449	5,773,794
-	(1,534,882)	-	-	-	(1,534,882)
-	(1,453,204)	-	-	5,192,449	4,238,912
(396,260)	(11,602,009)	(231,008)	1,786,840	692,695	(8,955,925)
10,055,234	33,512,796	1,095,405	16,730,125	8,158,953	105,860,438
\$ 9,658,974	\$ 21,910,787	\$ 864,397	\$ 18,516,965	\$ 8,851,648	\$ 96,904,513

# SANTA ANA UNIFIED SCHOOL DISTRICT

## GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2014

(Amounts in thousands)

	Actual Results for the Years					
	2013-2014		2012-2013		2011-2012	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal revenue	\$ 44,305	9.0	\$ 58,536	12.5	\$ 75,775	15.6
State and local revenue limit in Local Control Funding Formula	353,362	72.1	276,288	59.2	277,132	57.0
Other State revenue	82,952	16.9	120,158	25.8	124,109	25.5
Other local revenue	8,667	1.8	6,510	1.4	5,434	1.1
Tuition and transfers in	1,127	0.2	5,223	1.1	3,969	0.8
<b>Total Revenues</b>	<b>490,413</b>	<b>100.0</b>	<b>466,715</b>	<b>100.0</b>	<b>486,419</b>	<b>100.0</b>
<b>EXPENDITURES</b>						
Salaries and Benefits						
Certificated salaries	236,003	48.1	236,593	50.7	240,687	49.5
Classified salaries	71,250	14.5	66,128	14.2	65,907	13.5
Employee benefits	109,314	22.3	114,138	24.5	111,995	23.0
<b>Total Salaries and Benefits</b>	<b>416,567</b>	<b>84.9</b>	<b>416,859</b>	<b>89.4</b>	<b>418,589</b>	<b>86.0</b>
Books and supplies	19,027	3.9	15,159	3.2	18,773	3.8
Contracts and operating expenses	52,613	10.7	57,208	12.3	54,130	11.1
Capital outlay	1,176	0.2	1,807	0.4	965	0.2
Other outgo	3,759	0.8	2,378	0.5	3,638	0.7
<b>Total Expenditures</b>	<b>493,142</b>	<b>100.5</b>	<b>493,411</b>	<b>105.8</b>	<b>496,095</b>	<b>101.8</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(2,729)</b>	<b>(0.5)</b>	<b>(26,696)</b>	<b>(5.8)</b>	<b>(9,676)</b>	<b>(1.8)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers, net	(4,239)	(0.9)	5,513	1.2	(6,446)	(1.3)
<b>DECREASE IN FUND BALANCE</b>	<b>(6,968)</b>	<b>(1.4)</b>	<b>(21,183)</b>	<b>(4.6)</b>	<b>(16,122)</b>	<b>(3.1)</b>
<b>FUND BALANCE, BEGINNING</b>	<b>49,432</b>		<b>70,615</b>		<b>86,737</b>	
<b>FUND BALANCE, ENDING</b>	<b>\$ 42,464</b>		<b>\$ 49,432</b>		<b>\$ 70,615</b>	

See accompanying note to supplementary information.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

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

The following schedule provides 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 consist primarily of Medical Billing Option funds that have been recorded in the current period as revenues that had not been expended as of June 30, 2014. These unspent balances are reported as legally restricted ending balances within the General Fund. The Build America Bonds are excluded from the provisions of the OMB Circular A-133, *Audits of Local Governments, and Non-Profit Organizations*, and therefore, are not presented in the Schedule of Expenditures of Federal Awards.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 76,013,739
Medical Billing Option	93.778	434,212
Build America Bonds	[1]	(1,319,137)
Total Schedule of Expenditures of Federal Awards		<u>\$ 75,128,814</u>

[1] CFDA number not available

#### Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### 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.

# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014**

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### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

### **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 Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District and displays information for each Charter School on whether or not the Charter School is included in the District audit.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

### **General Fund Selected Financial Information**

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

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***INDEPENDENT AUDITOR'S REPORTS***

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**INDEPENDENT AUDITOR'S 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***

Governing Board  
Santa Ana Unified School District  
Santa Ana, 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 Santa Ana Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Santa Ana Unified School District's basic financial statements, and have issued our report thereon dated December 5, 2014.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Ana 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 Santa Ana Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Ana 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 Santa Ana Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Santa Ana Unified School District in a separate letter dated December 5, 2014.

### **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.

VARRINCK, TRINE, DAN + LO, LLP

Rancho Cucamonga, California  
December 5, 2014



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

Governing Board  
Santa Ana Unified School District  
Santa Ana, California

**Report on Compliance for Each Major Federal Program**

We have audited Santa Ana Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santa Ana Unified School District's (the District) major Federal programs for the year ended June 30, 2014. Santa Ana Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Santa Ana Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Santa Ana 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 Santa Ana Unified School District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Santa Ana Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of Santa Ana 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 Santa Ana Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Ana Unified School 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

VARRINCK, TRINE, DAI + LO, LLP

Rancho Cucamonga, California  
December 5, 2014



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Santa Ana Unified School District  
Santa Ana, California

### Report on State Compliance

We have audited Santa Ana Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Santa Ana Unified School District's State government programs as noted below for the year ended June 30, 2014.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Santa Ana Unified School District's State programs based on our audit of the types of compliance requirements referred to above. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Santa Ana 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 opinions. Our audit does not provide a legal determination of Santa Ana Unified School District's compliance with those requirements.

### Basis for Qualified Opinion for Instructional Materials

As described in the accompanying schedule of findings and questioned costs, Santa Ana Unified School District did not comply with requirements regarding the Instructional Materials as discussed in the Findings and Questioned Costs section of this report, as item 2014-001. Compliance with such requirements is necessary, in our opinion, for Santa Ana Unified School District to comply with the requirements applicable to that program.

### Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Santa Ana Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

## Unmodified Opinion on Each of the Other Programs

In our opinion, Santa Ana Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

*Varney, Tracy DM + 10.41*

Rancho Cucamonga, California  
December 5, 2014

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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# SANTA ANA UNIFIED SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2014

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### FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

### FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Low Income and Neglected</u>
<u>84.365</u>	<u>Title III, Limited English Proficient Student Program</u>
<u>84.377, 84.388 (ARRA)</u>	<u>School Improvement Grants Cluster (including ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,253,864</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>
Unmodified for all programs except for the following State program which was qualified:	

<u>Name of Program</u>
<u>Instructional Materials</u>

**SANTA ANA UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.

**SANTA ANA UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.

# SANTA ANA UNIFIED SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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The following finding represents instances of noncompliance and/or questioned costs relating to State program laws and regulations. The finding has been coded as follows:

Five Digit Code  
70000

AB 3627 Finding Type  
Instructional Materials

### *Instructional Materials*

**2014-001      Code 70000**

#### **Criteria or Specific Requirements**

Pursuant to Education Code 60119, the District is required to hold a public hearing regarding the sufficiency of textbooks or other instructional materials on or before the eighth week from the first day pupils attended school for that year.

#### **Condition**

The District was found to be out of compliance with regard to when the public hearing for instructional materials was held. The District held the hearing on January 8, 2014, which was not within the first eight weeks of the start of school.

#### **Questioned Costs**

There were no questioned costs associated with this condition. However, the 2013-2014 funding allocation of \$3,003,766 could be considered as inappropriately claimed by the District resulting in a decrease of funding.

#### **Context**

The condition was identified through inquiry with District personnel and also through review of available District records related to the minutes of board meetings.

#### **Effect**

A public hearing, as required by Education Code 60119, was not held within eight weeks from the first day of the school year.

#### **Cause**

Turnover in staff caused oversight of applicable compliance requirements.

## **SANTA ANA UNIFIED SCHOOL DISTRICT**

### **STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014**

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#### **Recommendation**

The District should make every effort to hold the public hearing before the eight weeks prior to the start of school. The District should designate a management employee with the responsibility for making sure the public hearing is identified on the board agenda before the eight weeks have passed. This non-compliance could result in loss of funding in the amount \$3,003,766. The District should consider filing a waiver request specific to this finding. Components of the waiver request that are required to be submitted are: a copy of the audit finding, the response to the audit finding, a copy of the Board resolution for the audited year (if any), a copy of the 2014-2015 Board resolution, and proof of public hearing with the posted date and location to prove a "legally compliant hearing" had been held.

#### **Corrective Action Plan**

During the last fiscal year, the District experienced a significant leadership transition that included the head of the Educational Services Division who held responsibility for this process. New leadership uncovered the related timeline error and quickly instituted actions to correct the error. The District has placed into action processes and procedures that will ensure the required public hearing is held within the eight week window following the start of school year. The District designated the Deputy Superintendent as the employee with responsibility for ensuring the public hearing is identified on the board agenda during the appropriate window of time to complete the task according to State compliance requirements. Those timeline and processes were adhered to in the 2014-2015 academic year, without issue.

## SANTA ANA UNIFIED SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

#### *Federal Awards Findings*

**2013-1     50000**

#### **Federal Program Affected**

Program Name: Title I, School Improvement Grant for QEIA Schools (includes ARRA) (CFDA No. 84.377 and 84.388), Title II, Part A Improving Teacher Quality (CFDA No. 84.367), Special Education Cluster (IDEA) (CFDA No. 84.027, 84.027A, 84.173, 84.173A)

Pass-Through Entity: U.S. Department of Education (DOE)

Federal Agency: U.S. Department of Health and Human Services

Program Name: Head Start Program (CFDA No. 93.600)

Pass-Through Entity: California Department of Education

Federal Agency: U.S. Department of Health and Human Services

#### **Criteria or Specific Requirements**

Compliance requirements: Cash Management

*Code of Federal Regulations (CFR), Title 34 - Education, Part 80, Section 80.21*, requires grantees and sub-grantees to promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or sub-grantee may keep interest amounts up to \$100 per year for administrative expenses. Although *CFR, Title 34 - Education, Part 74, Section 22(1)*, allows recipients to retain up to \$250 of interest earned on U.S. Department of Health and Human Services funds (e.g., child development program funding) to pay for related administrative costs; this allowance pertains to institutions of higher education, hospitals, and other non-profit organizations.

#### **Condition**

*Significant deficiency /Internal controls over compliance* - Policies and procedures are not currently in place that provide for the return of excess interest earned on Federal award advances.

#### **Questioned Costs**

Total interest earned by the Federal programs noted above was \$20,097. The interest reported is owed to the State/Federal Government because interest revenues exceeded the \$100 threshold.

## **SANTA ANA UNIFIED SCHOOL DISTRICT**

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014**

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#### **Context**

Excess interest may be accumulating but the District has not calculated or returned any amounts related to Federal funds.

#### **Effect**

The District did not implement the established procedures and subsequently did not remit the interest earnings.

#### **Cause**

The District did not follow the California Department of Education (CDE) guidance that provides Local Educational Agencies' with procedures to determine and return excess interest earned on Federal award advances.

#### **Recommendation**

The District should implement the guidance provided by the California Department of Education and determine if excess interest occurred. Amounts should then be remitted to the awarding agency in order to comply with the Federal regulations.

#### **Current Status**

Implemented.

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Governing Board  
Santa Ana Unified School District  
Santa Ana, California

In planning and performing our audit of the financial statements of Santa Ana Unified School District, for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 5, 2014 on the government-wide financial statements of the District.

### *Child Nutrition Inventory*

#### Observation

The Nutrition Services Department is not using a consistent unit of measure to record inventory. Nutrition services records inventory in the system using pallets as the unit measure for each item, but the inventory usage is subtracted from the system using unit measure on the invoices that does not match the system. This difference of unit measure skews the inventory report when invoices paid and the dollar amount is subtracted from the system as unit measures for recording of inventory and paying off invoices are different.

#### Recommendation

The Nutrition Services Department should use the same unit measure to record the inventory in the system and to subtract inventory usage amount. Using the same unit measure ensures the total cost of an item is the same when recorded in the system when it was bought and subtracted after the usage. It gives the Nutrition Services accurate count of the inventory and value of the inventory as needed without any adjustments in the unit measure.

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

### ***Consolidated ASB***

#### Observation

The bank reconciliation was not available for review during audit of internal controls of the Consolidated ASB.

#### Recommendation

Monthly bank reconciliation's must be completed in order to ensure that the cash balances reported on the books are accurate and that the financial institution has not made a mistake. Besides reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal. Differences between these two amounts could be caused by misclassification to the student body accounts.

### ***Villa Intermediate School***

#### Observations

During our review of associated student body procedures, the following issues were noted:

- The ASB is not utilizing ASB fundraiser approval forms and the revenue potential forms to approve fundraisers and calculate estimated revenues and profits.
- Deposits are not made on a timely basis. We noted one of two deposits selected was given to the armored car pick up 65 days after the first day of receipt for that deposit.

#### Recommendations

- The ASB should use fundraising approval form to establish proper internal controls over fundraiser approval process. It ensures authorized people are approving the fundraisers. The ASB should also use the revenue potential forms to ensure each clubs is comparing their estimated sales and profits to the actual amounts to ensure they aren't repeating fundraisers that are in negative.
- Deposits should be made in a timely manner. Cash collected should be deposited within ten days from the first date of cash receipt. Frequent deposits ensure that cash is not on hand at the site where it is at risk of being stolen or disappearing.

### ***Century High School***

#### **Observations**

During our review of associated student body procedures, the following issues were noted:

- Deposits are not being made timely. The days noted between receipt and deposit date ranged from 16 to 35 days.
- We noted five of 20 disbursements tested were not preapproved by the ASB council. Expenditures occurred first and were approved after the fact.
- We noted one of six fundraiser revenue potential forms tested were not completed for the estimated revenues, disbursements, and profits.

#### **Recommendations**

- Deposits should be made in a timely manner. Cash collected should be deposited within ten days from the first date of cash receipt. Frequent deposits ensure that cash is not on hand at the site where it is at risk of being stolen or disappearing.
- The site should ensure all cash disbursements are being preapproved by the ASB prior to the purchasing of the goods or services. The ASB policy should be communicated to club advisors regarding the disbursement process. Preapproval from the ASB is necessary for all cash disbursements to ensure goods and services being purchased are allowable and necessary for the student body. It also ensures proper internal controls are in place to avoid unauthorized expenditures.
- The revenue potential part of the fundraiser approval form is important because it ensures that students estimate their sales, expenses, and net profits and compare it to the actual amounts. The comparison lets the students know if the fundraiser is making money for the club or losing money, so the clubs can ensure the fundraisers losing money shouldn't be repeated and club's account balance doesn't go into negative.

### ***Willard Intermediate ASB***

#### **Observations**

During our review of associated student body procedures, the following issues were noted:

- Sales receipts monies were being deposited untimely to the District. In addition, the deposit count slip was not signed by two individuals and a reconciliation is not performed documenting the amount deposited to the district compared to the amount counted by the site.
- Fundraising activities did not provide supporting documentation for items sold.
- Two fundraising activities tested did not have a revenue potential form and preapproval on file.
- Two disbursements were not preapproved before commitment was made with the vendor. In addition, two disbursements did not have explicit receiving documentation.

### Recommendations

- At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit the District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely. All ASB deposits require two signatures which indicate an individual counting the monies collected as well as a witness verifying the count. Any significant discrepancies should be investigated and discussed with individuals that are making the deposit. The deposit slip is an important procedure for proper internal controls.
- A form should be developed and used to summarize the monies collected by ASB Advisors. This form would provide an explanation of what the monies were collected for and allow the District to properly account for the funds once they are received by the site Accountant. The form should include items sold compared to monies that are actually collected and an explanation for any differences.
- As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due.
- In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are correctly pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
- All invoices should be accompanied by signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received. Purchase orders should be compared to the receiving documentation for accuracy and completeness, giving the clubs better control over their spending and inventory.

### *Lorin Griset Academy*

### Observations

During our review of associated student body procedures, the following issues were noted:

- The fundraising activity did not provide a reconciliation of items sold or total revenue generated by the activity.
- One fundraising activity did not have a revenue potential form on file.
- Disbursements were not preapproved before purchases were made.

Recommendations

- A form should be developed and used to summarize the monies collected by ASB Advisors. This form would provide an explanation of what the monies were collected for and allow the District to properly account for the funds once they are received by the site accountant. The form should include items sold compared to monies that are actually collected and an explanation for any differences.
- As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due.
- In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are correctly pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

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

VARRICK, TRINE DAY 4 10, 11

Rancho Cucamonga, California  
December 5, 2014

