# SANTA ANA UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**JUNE 30, 2016**

**SANTA ANA UNIFIED SCHOOL DISTRICT**

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## SANTA ANA UNIFIED SCHOOL DISTRICT

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### *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

# *FINANCIAL SECTION*

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



# 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, 2016, 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 the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* 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.



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***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, 2016, 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.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, budgetary comparison schedule on page 78, schedule of other postemployment benefits funding progress on page 79, schedule of the District's proportionate share of net pension liability on page 80, and schedule of District contributions on page 81, 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 non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and 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 Schedule of Expenditures of Federal Awards and 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 2, 2016, 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 2, 2016

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, 2016, with comparative information for the year ended June 30, 2015. 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 three categories of activities: governmental, proprietary, and fiduciary.

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.
>
> The *Fiduciary Funds* 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.

## 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.

***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.

### THE DISTRICT AS A WHOLE

**Net Position**

The District's net position was $308,321,043 for the fiscal year ended June 30, 2016, reflecting an increase of 26.1 percent since June 30, 2015. Of this amount, $126,264,888 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 | |
|---|---|---|
| | 2016 | 2015 |
| **Assets** | | |
| Current and other assets | $ 320,926,603 | $ 282,203,374 |
| Capital assets | 1,014,882,485 | 984,439,263 |
| **Total Assets** | **1,335,809,088** | **1,266,642,637** |
| **Deferred Outflows of Resources** | **118,205,602** | **35,242,043** |
| **Liabilities** | | |
| Current liabilities, including current portion of long-term obligations | 82,195,796 | 82,580,587 |
| Long-term obligations | 495,612,955 | 493,382,389 |
| Aggregate net pension liability | 470,754,855 | 379,523,796 |
| **Total Liabilities** | **1,048,563,606** | **955,486,772** |
| **Deferred Inflows of Resources** | **97,130,041** | **101,826,055** |
| **Net Position** | | |
| Net investment in capital assets | 677,648,499 | 640,521,276 |
| Restricted | 126,264,888 | 114,477,000 |
| Unrestricted | (495,592,344) | (510,426,423) |
| **Total Net Position** | **$ 308,321,043** | **$ 244,571,853** |

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 – increased to $(495,592,344) compared to $(510,426,423).

**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 18. 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 | |
|---|---|---|
| | 2016 | 2015 |
| **Revenues** | | |
| Program revenues: | | |
| Charges for services | $ 2,694,596 | $ 2,698,468 |
| Operating grants and contributions | 151,745,400 | 148,471,238 |
| Capital grants and contributions | 117,680 | 8,494,325 |
| General revenues: | | |
| Federal and State aid not restricted | 398,865,212 | 319,432,207 |
| Property taxes | 155,120,170 | 136,052,373 |
| Other general revenues | 52,121,851 | 47,393,458 |
| **Total Revenues** | **760,664,909** | **662,542,069** |
| **Expenses** | | |
| Instruction | 408,178,037 | 365,309,823 |
| Instruction-related | 70,157,337 | 64,567,126 |
| Pupil services | 80,949,628 | 70,289,323 |
| Administration | 49,754,567 | 31,565,391 |
| Plant services | 55,910,599 | 52,075,730 |
| Interest on long-term obligations | 21,543,431 | 21,468,468 |
| Other | 10,422,120 | 15,635,605 |
| **Total Expenses** | **696,915,719** | **620,911,466** |
| **Change in Net Position** | **$ 63,749,190** | **$ 41,630,603** |

## Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was $696,915,719. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $155,120,170 because the cost was paid by those who benefited from the programs $(2,694,596) or by other governments and organizations who subsidized certain programs with grants and contributions $(151,863,080). We paid for the remaining "public benefit" portion of our governmental activities with $450,987,063 in State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, instruction-related programs, pupil 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 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Instruction | $ 408,178,037 | $ 365,309,823 | $ 322,000,933 | $ 272,572,614 |
| Instruction-related | 70,157,337 | 64,567,126 | 56,901,501 | 52,307,579 |
| Pupil services | 80,949,628 | 70,289,323 | 35,664,732 | 28,593,279 |
| Administration | 49,754,567 | 31,565,391 | 44,680,850 | 25,899,903 |
| Plant services | 55,910,599 | 52,075,730 | 55,394,355 | 51,517,879 |
| Interest on long-term obligations | 21,543,431 | 21,468,468 | 21,543,431 | 21,468,468 |
| Other | 10,422,120 | 15,635,605 | 6,172,241 | 8,887,713 |
| **Total** | **$ 696,915,719** | **$ 620,911,466** | **$ 542,358,043** | **$ 461,247,435** |

## THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $210,795,070, which is an increase of $36,422,549 from last year (Table 4).

**Table 4**

| | Balances and Activity | | | |
|---|---|---|---|---|
| | July 1, 2015 | Revenues | Expenditures | June 30, 2016 |
| General Fund | $ 53,320,644 | $ 660,134,241 | $ 612,727,464 | $ 100,727,421 |
| Special Reserve Fund for Capital Outlay Projects | 16,076,414 | 27,345,976 | 33,961,987 | 9,460,403 |
| Charter School Fund | - | 1,434,480 | 1,434,480 | - |
| Child Development Fund | 86,634 | 3,988,959 | 3,976,651 | 98,942 |
| Cafeteria Fund | 21,769,517 | 40,375,605 | 39,360,213 | 22,784,909 |
| Deferred Maintenance Fund | 1,802,996 | 2,251,623 | 3,335,959 | 718,660 |
| Building Fund | 10,959,766 | 46,519 | 6,810,410 | 4,195,875 |
| Capital Facilities Fund | 10,657,570 | 6,924,762 | 3,801,849 | 13,780,483 |
| County School Facilities Fund | 29,275,154 | 117,681 | 2,716,099 | 26,676,736 |
| Capital Projects Fund for Blended Component Units | 831,755 | 2,123 | 5,238 | 828,640 |
| Bond Interest and Redemption Fund | 20,027,239 | 20,806,806 | 19,610,984 | 21,223,061 |
| Debt Service Fund for Blended Component Units | 9,564,832 | 6,596,216 | 5,861,108 | 10,299,940 |
| **Total** | **$ 174,372,521** | **$ 770,024,991** | **$ 733,602,442** | **$ 210,795,070** |

The primary reasons for changes are:

a. The General Fund showed an increase of $47.4 million.
b. The Capital Facilities Fund showed an increase of $3.1 million.
c. The Bond Interest and Redemption Fund showed an increase of $1.2 million.
d. The Debt Service Fund for Blended Component Units showed an increase of $0.7 million.
e. The Building Fund showed a decrease of $6.8 million.
f. The Special Reserve Fund for Capital Outlay Projects showed a decrease of $6.6 million.
g. The County School Facilities Fund showed a decrease of $2.6 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 28, 2016. (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 78.)

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, 2016, the District had $1,014,882,485 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 $30,443,222, or 3.1 percent, from last year (Table 5).

**Table 5**

| | Governmental Activities | |
|---|---|---|
| | 2016 | 2015 |
| Land and construction in progress | $ 238,778,347 | $ 187,378,108 |
| Buildings and improvements | 768,016,372 | 787,242,635 |
| Furniture and equipment | 8,087,766 | 9,818,520 |
| **Total** | **$ 1,014,882,485** | **$ 984,439,263** |

This year's additions of $30.4 million (see Note 5) included several completed construction projects for modernization, new construction, and QZAB solar.

Several capital projects are planned for the 2016-2017 year. We anticipate capital additions to be $30.9 million for the 2016-2017 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

## Long-Term Obligations

At the end of this year, the District had $495,612,955 in long-term obligations versus $493,382,389 last year. The obligations consisted of:

**Table 6**

| | Governmental Activities | |
|---|---|---|
| | 2016 | 2015 |
| General obligation bonds - net (financed with property taxes) | $ 332,866,544 | $ 334,975,726 |
| Certificates of participation - net | 79,677,106 | 81,450,246 |
| Qualified zone academy bonds | 11,500,000 | 11,500,000 |
| Career Technical Education facilities program loan | 810,264 | 1,061,788 |
| Compensated absences | 1,427,201 | 1,897,758 |
| Claims liability | 13,713,796 | 13,206,109 |
| Other postemployment benefits | 55,618,044 | 49,290,762 |
| **Total** | **$ 495,612,955** | **$ 493,382,389** |

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 $332,866,544 is significantly below the statutorily-imposed limit.

Other obligations include certificates of participation, qualified zone academy bonds, compensated absences, 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.

## Net Pension Liability (NPL)

At year-end, the District had a net pension liability of $470,754,855, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

## SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:

1. Sierra and Willard Intermediate Schools were invited to participate in the Turnaround Arts program. Turnaround Arts is a Whitehouse Arts and Culture initiative that is sponsored by Michelle Obama. Each school is paired with a local artist to support teacher training for incorporating arts into the curriculum. Sierra was paired with R&B Artist, Herbie Hancock, and Willard is working with America's Got Talent and So You Think You Can Dance producer, Nigel Lithgoe.

2. Middle College High School and MacArthur Fundamental Intermediate School were invited by the CA Department of Education to submit an application for a State Gold Ribbon school in the Secondary Schools category.

3. Four SAUSD elementary Schools were recognized by the CA Department of Education with Gold Ribbon Awards. The schools included: Walker Elementary School, Greenville Fundamental Elementary School, Lincoln Elementary School, and Franklin Elementary School. The Gold Ribbon Awards recognize California schools that have made gains in implementing the academic content and performance standards adopted by the State Board of Education.

4. Godinez Fundamental High School expanded their music programs to include a 120 member marching band.

5. Segerstrom High School is the only public high school in our region to be approved to offer a full component of ACT assessments and readiness tests to all students.

6. Santa Ana Community College, as a part of the Adelante Partnership, began to offer a tuition free first year for all SAUSD graduates who enroll fulltime. Students are also provided with a free laptop computer to use for their school work.

7. Advanced Learning Academy, the District's dependent charter school with a focus on high-tech, project-based, and STEM (Science, Technology, Engineering, and Mathematics) curriculum, expanded to grades 3 - 8.

8. Three Santa Ana USD high school football teams won their perspective league championships and entered the CIF Southern Section playoffs. Santa Ana High School made it to the CIF finals for the first time since 1985.

9. Victor de los Santos, Director of Bands at Santa Ana High School, was recognized as a nominee for the 2017 Difference Maker Award. This national recognition focuses on teachers who positively impact students and their families.

10. SAUSD achieved the highest rate of students earning the State Seal of Biliteracy upon graduation. 32 percent of SAUSD seniors (1017 students) received the Seal, an increase of 132 students from the previous school year.

11. Several thousand Santa Ana community members joined SAUSD students, staff, and parents at the 2016 School Choice Faire in Downtown Santa Ana.

12. SAUSD's LCAP community engagement process included two sessions at each school for a total of 112 parent engagement sessions. The LCAP process also expanded outreach to students. This year's process engaged over 3,000 students, with sessions being conducted at every SAUSD Intermediate and high school.

13. Ten SAUSD schools received Silver Recognition by The California PBIS Coalition for implementing Positive Behavior Interventions and Supports with fidelity to the National PBIS Framework. Those schools included: Lincoln Elementary School, Franklin Elementary School, Fremont Elementary School, Heroes Elementary School, Kennedy Elementary School, Mendez Fundamental Intermediate School, Pio Pico, Elementary School, Davis Elementary School, Wilson Elementary School, and REACH Academy.

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

The 2016-2017 budget was adopted according to the statute prior to June 30, 2017. The District's revenue and expenditure projections are reflective of the Governor's May Revise Budget Proposal. In considering the District Budget for the 2016-2017 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. Projected declining enrollment of -1629
3. Utilization of 2015-2016 P2 ADA to calculate LCFF funding
4. LCFF Gap funding of 54.84 percent
5. Statutory COLA of zero percent
6. Unduplicated count of 94.24 percent
7. LCFF Transfers to Deferred Maintenance Fund
8. Reduction in E-Rate and CTE revenue
9. Increased contribution to Ongoing and Major Maintenance Account
10. Removal of one-time Discretionary funds
11. Mandated Block Grant

Expenditures were based on the following:

1. Decreased in staffing allocation due to declining enrollment
2. Increased in non-management certificated salary due to a raise of 1 percent based on 2014-2015 salary schedules
3. Increased costs for STRS/PERS rates; Health and Welfare
4. Removal of one-time expenditures as well as a reduction in E-Rate infrastructure funding
5. Removal of carryover, however, it will be budgeted when the actual amounts are known
6. Removal of interfund transfer to Special Reserve Fund for Postemployment Benefits and Special Reserve Fund for Capital Outlay Projects for the remodeling of Santa Ana High School kitchen project
7. Increased Special Education costs

Staffing ratios:

| | Staffing Ratio | Enrollment |
|---|---|---|
| Transitional Kindergarten | 29:1 | 1,019 |
| Kindergarten | 29:1 | 3,837 |
| Grade one | 29:1 | 3,307 |
| Grade two | 29:1 | 3,685 |
| Grade three | 29:1 | 4,106 |
| Grades four through five | 29:1 | 8,004 |
| Grades six through eight | 35:1 | 11,469 |
| Grades nine through twelve | 36:1 | 14,327 |

The District has not made any budget reductions since the implementation of the LCFF in 2013-2014.

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 dawn.piatek@sausd.us.

## SANTA ANA UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION
## JUNE 30, 2016

| | | Governmental Activities |
|---|---|---|
| **ASSETS** | | |
| Deposits and investments | $ | 271,567,089 |
| Receivables | | 47,858,104 |
| Prepaid expenses | | 62,299 |
| Stores inventories | | 1,439,111 |
| Capital Assets | | |
| Land and construction in process | | 238,778,347 |
| Other capital assets | | 975,452,954 |
| Less: accumulated depreciation | | (199,348,816) |
| Total Capital Assets | | 1,014,882,485 |
| **Total Assets** | | 1,335,809,088 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred charge on refunding | | 511,023 |
| Deferred outflows of resources related to pensions | | 117,694,579 |
| **Total Deferred Outflows of Resources** | | 118,205,602 |
| **LIABILITIES** | | |
| Accounts payable | | 49,915,100 |
| Accrued interest payable | | 4,091,119 |
| Unearned revenue | | 28,189,577 |
| Long-Term Obligations: | | |
| Current portion of long-term obligations other than pensions | | 18,287,905 |
| Noncurrent portion of long-term obligations other than pensions | | 477,325,050 |
| Total Long-Term Obligations | | 495,612,955 |
| Aggregate net pension liability | | 470,754,855 |
| **Total Liabilities** | | 1,048,563,606 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred inflows of resources related to pensions | | 97,130,041 |
| **NET POSITION** | | |
| Net investment in capital assets | | 677,648,499 |
| Restricted for: | | |
| Debt service | | 27,431,882 |
| Capital projects | | 43,694,929 |
| Educational programs | | 14,591,802 |
| Other activities | | 40,546,275 |
| Unrestricted | | (495,592,344) |
| **Total Net Position** | $ | 308,321,043 |

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, 2016

| | | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| **Governmental Activities:** | | | | | |
| Instruction | $ 408,178,037 | $ 956,043 | $ 85,103,381 | $ 117,680 | $ (322,000,933) |
| Instruction-related activities: | | | | | |
| Supervision of instruction | 27,318,338 | 59,313 | 10,410,116 | - | (16,848,909) |
| Instructional library, media, and technology | 4,158,838 | 152 | 132,942 | - | (4,025,744) |
| School site administration | 38,680,161 | 12,397 | 2,640,916 | - | (36,026,848) |
| Pupil services: | | | | | |
| Home-to-school transportation | 10,700,661 | - | - | - | (10,700,661) |
| Food services | 38,617,463 | 1,153,106 | 33,809,026 | - | (3,655,331) |
| All other pupil services | 31,631,504 | 100,793 | 10,221,971 | - | (21,308,740) |
| Administration: | | | | | |
| Data processing | 6,089,878 | 2,553 | 1,289 | - | (6,086,036) |
| All other administration | 43,664,689 | 57,402 | 5,012,473 | - | (38,594,814) |
| Plant services | 55,910,599 | 6,687 | 509,557 | - | (55,394,355) |
| Ancillary services | 5,367,291 | 579 | 47,330 | - | (5,319,382) |
| Community services | 140,955 | 9 | 40 | - | (140,906) |
| Enterprise services | 186,297 | 6,429 | 168,674 | - | (11,194) |
| Interest on long-term obligations | 21,543,431 | - | - | - | (21,543,431) |
| Other outgo | 4,727,577 | 339,133 | 3,687,685 | - | (700,759) |
| **Total Governmental Activities** | $ 696,915,719 | $ 2,694,596 | $ 151,745,400 | $ 117,680 | (542,358,043) |
| | **General revenues and subventions:** | | | | |
| | Property taxes, levied for general purposes | | | | 132,251,850 |
| | Property taxes, levied for debt service | | | | 19,390,661 |
| | Taxes levied for other specific purposes | | | | 3,477,659 |
| | Federal and State aid not restricted to specific purposes | | | | 398,865,212 |
| | Interest and investment earnings | | | | 1,081,108 |
| | Miscellaneous | | | | 51,040,743 |
| | **Subtotal, General Revenues** | | | | 606,107,233 |
| | **Change in Net Position** | | | | 63,749,190 |
| | Net Position - Beginning | | | | 244,571,853 |
| | Net Position - Ending | | | | $ 308,321,043 |

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

## SANTA ANA UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS
## BALANCE SHEET
## JUNE 30, 2016

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments | $ 105,647,673 | $ 34,629,876 | $ 102,094,362 | $ 242,371,911 |
| Receivables | 38,158,145 | 741,495 | 7,360,306 | 46,259,946 |
| Due from other funds | 10,852,346 | 1,580,666 | 2,214,267 | 14,647,279 |
| Prepaid expenditures | 62,299 | - | - | 62,299 |
| Stores inventories | 895,081 | - | 544,030 | 1,439,111 |
| **Total Assets** | $ 155,615,544 | $ 36,952,037 | $ 112,212,965 | $ 304,780,546 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **Liabilities:** | | | | |
| Accounts payable | $ 43,731,332 | $ 1,053,165 | $ 4,442,672 | $ 49,227,169 |
| Due to other funds | 9,439,016 | 4,433 | 7,125,281 | 16,568,730 |
| Unearned revenue | 1,717,775 | 26,434,036 | 37,766 | 28,189,577 |
| **Total Liabilities** | 54,888,123 | 27,491,634 | 11,605,719 | 93,985,476 |
| **Fund Balances:** | | | | |
| Nonspendable | 1,147,380 | - | 551,694 | 1,699,074 |
| Restricted | 14,492,860 | 3,237,710 | 99,335,195 | 117,065,765 |
| Committed | 8,047,582 | - | 718,660 | 8,766,242 |
| Assigned | 64,711,884 | 6,222,693 | 1,697 | 70,936,274 |
| Unassigned | 12,327,715 | - | - | 12,327,715 |
| **Total Fund Balances** | 100,727,421 | 9,460,403 | 100,607,246 | 210,795,070 |
| **Total Liabilities and Fund Balances** | $ 155,615,544 | $ 36,952,037 | $ 112,212,965 | $ 304,780,546 |

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, 2016

| | | |
|---|---|---|
| **Total Fund Balance - Governmental Funds** | | **$ 210,795,070** |
| **Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:** | | |
| 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 | $ 1,214,231,301 | |
| Accumulated depreciation is | (199,348,816) | |
| Net Capital Assets | | 1,014,882,485 |
| Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. | | 39,099,415 |
| 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. | | (4,091,119) |
| 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. | | 18,313,060 |
| 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. | | 511,023 |
| The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. | | 21,834,038 |
| The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. | | (33,392,228) |
| The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. | | (90,976) |
| The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. | | (6,885,711) |
| Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. | | (470,754,855) |
| 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 | 263,918,139 | |
| Premium on issuance of bonds | 8,036,509 | |
| Certificates of participation | 58,188,748 | |
| Premium on issuance of certificates | 1,124,431 | |
| Qualified zone academy bonds | 11,500,000 | |
| Compensated absences (vacations) | 1,427,201 | |
| Career Technical Education facilities program loan | 810,264 | |
| Net OPEB obligation | 55,618,044 | |
| 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: | 81,275,823 | |
| Total Long-Term Obligations | | (481,899,159) |
| **Total Net Position - Governmental Activities** | | **$ 308,321,043** |

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, 2016

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Local Control Funding Formula | $ 489,808,998 | $ - | $ 1,065,757 | $ 490,874,755 |
| Federal sources | 49,331,463 | - | 36,526,930 | 85,858,393 |
| Other State sources | 104,728,530 | 24,443,827 | 8,639,981 | 137,812,338 |
| Other local sources | 16,265,250 | 335,053 | 30,288,149 | 46,888,452 |
| **Total Revenues** | 660,134,241 | 24,778,880 | 76,520,817 | 761,433,938 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| Instruction | 384,608,091 | - | 3,936,112 | 388,544,203 |
| Instruction-related activities: | | | | |
| Supervision of instruction | 25,595,806 | - | 408,513 | 26,004,319 |
| Instructional library, media, and technology | 4,109,270 | - | - | 4,109,270 |
| School site administration | 37,836,760 | - | 380,996 | 38,217,756 |
| Pupil services: | | | | |
| Home-to-school transportation | 10,695,191 | - | - | 10,695,191 |
| Food services | 1,154,650 | - | 37,289,217 | 38,443,867 |
| All other pupil services | 29,010,966 | - | 316,893 | 29,327,859 |
| Administration: | | | | |
| Data processing | 6,059,776 | - | - | 6,059,776 |
| All other administration | 39,963,950 | - | 2,035,982 | 41,999,932 |
| Plant services | 52,026,605 | 49,454 | 3,578,994 | 55,655,053 |
| Facility acquisition and construction | 3,237,174 | 32,475,511 | 13,321,696 | 49,034,381 |
| Ancillary services | 5,323,820 | - | - | 5,323,820 |
| Community services | 139,454 | - | - | 139,454 |
| Other outgo | 4,727,577 | - | - | 4,727,577 |
| Enterprise services | 3,250 | - | 172,496 | 175,746 |
| Debt service | | | | |
| Principal | 251,524 | - | 12,990,000 | 13,241,524 |
| Interest and other | 5,639 | - | 12,482,092 | 12,487,731 |
| **Total Expenditures** | 604,749,503 | 32,524,965 | 86,912,991 | 724,187,459 |
| **Excess (Deficiency) of Revenues Over Expenditures** | 55,384,738 | (7,746,085) | (10,392,174) | 37,246,479 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | - | 2,567,096 | 6,023,957 | 8,591,053 |
| Transfers out | (7,977,961) | (1,437,022) | - | (9,414,983) |
| **Net Financing Sources (Uses)** | (7,977,961) | 1,130,074 | 6,023,957 | (823,930) |
| **NET CHANGE IN FUND BALANCES** | 47,406,777 | (6,616,011) | (4,368,217) | 36,422,549 |
| **Fund Balances - Beginning** | 53,320,644 | 16,076,414 | 104,975,463 | 174,372,521 |
| **Fund Balances - Ending** | $ 100,727,421 | $ 9,460,403 | $ 100,607,246 | $ 210,795,070 |

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, 2016

| | | |
|---|---|---|
| **Total Net Change in Fund Balances - Governmental Funds** | | **$ 36,422,549** |
| **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 | $ 51,400,239 | |
| Depreciation expense | (20,957,017) | |
| Net Expense Adjustment | | 30,443,222 |
| In the Statement of Activities, certain operating expenses - compensated absences (vacations) is 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, vacation earned was less than the amounts paid by $470,557. | | 470,557 |
| In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. | | (3,534,984) |
| 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: | | (6,327,282) |
| 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 charge on refunding | (36,502) | 461,007 |

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

## 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, 2016

| | |
|---|---|
| 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 | $ 9,605,000 |
| Certificates of participation | 3,385,000 |
| CTE facilities program loan | 251,524 |
| 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 $88,480, and second, $9,605,187 of additional interest was accreted on the District's capital appreciation general obligation bonds and certificates of participation. | (9,516,707) |
| An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net change of the Internal Service Fund is reported with governmental activities. | 2,089,304 |
| **Change in Net Position of Governmental Activities** | **$ 63,749,190** |

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

## SANTA ANA UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS
## STATEMENT OF NET POSITION
## JUNE 30, 2016

| | Governmental Activities - Internal Service Fund |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Deposits and investments | $ 29,195,178 |
| Receivables | 1,598,158 |
| Due from other funds | 6,457,071 |
| **Total Current Assets** | 37,250,407 |
| | |
| **LIABILITIES** | |
| **Current Liabilities** | |
| Accounts payable | 687,931 |
| Due to other funds | 4,535,620 |
| Current portion of long-term obligations | 3,441,381 |
| **Total Current Liabilities** | 8,664,932 |
| **Noncurrent Liabilities** | |
| Noncurrent portion of long-term obligations | 10,272,415 |
| | |
| **NET POSITION** | |
| Restricted | 18,313,060 |
| **Total Net Position** | $ 18,313,060 |

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, 2016**

| | Governmental Activities - Internal Service Fund |
|---|---|
| **OPERATING REVENUES** | |
| Local and intermediate sources | $ 20,334,492 |
| **OPERATING EXPENSES** | |
| Payroll costs | 11,767,406 |
| Supplies and materials | 335,896 |
| Other operating cost | 7,136,410 |
| **Total Operating Expenses** | 19,239,712 |
| **Operating Income** | 1,094,780 |
| **NONOPERATING REVENUES** | |
| Interest income | 170,594 |
| Transfers in | 823,930 |
| **Total Nonoperating Revenues** | 994,524 |
| **Change in Net Position** | 2,089,304 |
| **Total Net Position - Beginning** | 16,223,756 |
| **Total Net Position - Ending** | $ 18,313,060 |

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, 2016

| | Governmental Activities - Internal Service Fund |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash receipts from customers | $ 18,276,081 |
| Other operating cash receipts | 41,878 |
| Cash payments to other suppliers of goods or services | (4,944,379) |
| Cash payments to employees for services | (9,181,562) |
| Other operating cash payments | (6,628,723) |
| Net Cash Used by Operating Activities | (2,436,705) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Transfer from other funds | 823,930 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest on investments | 170,594 |
| Net decrease in cash and cash equivalents | (1,442,181) |
| Cash and cash equivalents - Beginning | 30,637,359 |
| Cash and cash equivalents - Ending | $ 29,195,178 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:** | |
| Operating income | $ 1,094,780 |
| Changes in assets and liabilities: | |
| Receivables | (964,179) |
| Due from other funds | (1,052,354) |
| Accounts payable | (4,608,483) |
| Due to other fund | 2,585,844 |
| Claims liability | 507,687 |
| **NET CASH USED BY OPERATING ACTIVITIES** | $ (2,436,705) |

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

## SANTA ANA UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS
## STATEMENT OF NET POSITION
## JUNE 30, 2016

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Deposits and investments | $ 2,931,022 |
| Receivables | 765 |
| **Total Assets** | $ 2,931,787 |
| **LIABILITIES** | |
| Due to student groups | $ 1,643,495 |
| Due to bondholders | 1,288,292 |
| **Total Liabilities** | $ 2,931,787 |

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

### 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, one charter school, 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 and qualified zone academy bonds 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.

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, Orange County High School of the Arts, and Advanced Learning Academy pursuant to *Education Code* Section 47605. The 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, Orange County High School of the Arts are direct-funded and are not considered component units of the District. The Charter Schools are independent of the District, but subject to periodic charter renewal by the District. The Advanced Learning Academy is operated by the District, and its financial activity is presented in the Charter School Fund.

**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.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Other Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extension of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets and fund balance of $20,038,644 an increase in revenues and other financing sources of $13,725, and a decrease in expenditures and other financing uses of $17,024,786.

**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).

**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.

**Charter School Fund** The Charter School Fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing Districts General 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).

**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 lA), 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.).

**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).

**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 obligations.

**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 property and liability, 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.

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 the cafeteria special revenue fund and the internal service fund, 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.

**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.

**Investments**

Investments held at June 30, 2016, 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.

**Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefit period. The District has chosen to report the expenditures when incurred.

**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.

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.

**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.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized charge on the refunding of general obligation bonds and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

**Pensions**

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

**Fund Balances - Governmental Funds**

As of June 30, 2016, 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.

**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 $126,264,888 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.

**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 1st 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 February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

**New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) 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 Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

## NOTE 2 - DEPOSITS AND INVESTMENTS

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

| | |
|---|---|
| Governmental activities | $ 271,567,089 |
| Fiduciary funds | 2,931,022 |
| Total Deposits and Investments | $ 274,498,111 |

Deposits and investments as of June 30, 2016, consist of the following:

| | | |
|---|---|---|
| Cash on hand and in banks | $ | 5,465,821 |
| Cash in revolving | | 747,664 |
| Investments | | 268,284,626 |
| Total Deposits and Investments | $ | 274,498,111 |

**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.

### 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 |

**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 |
| Federtal 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.

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 | Reported Amount | Average Maturity in Days/ Maturity Date |
|---|---|---|
| Orange County Treasury Investment Pool | $ 257,205,714 | 339 days |
| Dreyfus Institutional Reserve Treasury Money Market Fund | 811,928 | 14 days |
| INVESCO Government and Agency Money Market Fund | 1,443 | 1 - 180 days |
| BNP Paribas Fortis New | 3,775,124 | 10/27/16 |
| Abbey National Commercial Paper | 6,490,417 | 12/19/16 |
| Total | $ 268,284,626 | |

**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 Treasury Investment Pool is not required to rated, nor has it been rated as of June 30, 2016. 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, 2016. The investments in BNP Paribas Fortis New has been rated P-1 by Moody's Investor Service as of June 30, 2016. The investment in Abbey National Treasury has been rated P-1 by Standard and Poor's as of June 30, 2016.

**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, 2016, the District's bank balance of $4,278,285 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.

**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 ABBEY NATIONAL TREASURY and BNP Paribas Fortis New of $10,265,541, the District has a custodial credit risk exposure of $10,265,541 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 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Orange County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

| Investment Type | Reported Amount | Fair Value Measurements Using Level 2 Inputs | Uncategorized |
|---|---|---|---|
| Orange County Treasury Investment Pool | $ 257,205,714 | $ - | $ 257,205,714 |
| Dreyfus Institutional Reserve Treasury Money Market Fund | 811,928 | 811,928 | - |
| INVESCO Government and Agency Money Market Fund | 1,443 | 1,443 | - |
| BNP Paribas Fortis New | 3,775,124 | 3,775,124 | - |
| Abbey National Commercial Paper | 6,490,417 | 6,490,417 | - |
| Total | $ 268,284,626 | $ 11,078,912 | $ 257,205,714 |

## NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Internal Service Fund | Total Governmental Activities | Fiduciary Funds |
|---|---|---|---|---|---|---|
| Federal Government | | | | | | |
| Categorical aid | $ 14,441,182 | $ - | $ 5,976,988 | $ - | $ 20,418,170 | $ - |
| State Government | | | | | | |
| Categorical aid | 4,594,383 | - | 720,873 | - | 5,315,256 | - |
| Lottery | 5,877,836 | - | - | - | 5,877,836 | - |
| Local Government | | | | | | - |
| Interest | 75,690 | 21,848 | 43,267 | 11,619 | 152,424 | 765 |
| Regional occupational program | 998,719 | - | - | - | 998,719 | - |
| Other LEA | 1,106,982 | - | - | - | 1,106,982 | - |
| Other Local Sources | 11,063,353 | 719,647 | 619,178 | 1,586,539 | 13,988,717 | - |
| Total | $ 38,158,145 | $ 741,495 | $ 7,360,306 | $ 1,598,158 | $ 47,858,104 | $ 765 |

### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

| | Balance July 1, 2015 | Additions | Deductions | Balance June 30, 2016 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | $ 136,172,405 | $ - | $ - | $ 136,172,405 |
| Construction in progress | 51,205,703 | 51,400,239 | - | 102,605,942 |
| Total Capital Assets Not Being Depreciated | 187,378,108 | 51,400,239 | - | 238,778,347 |
| Capital Assets Being Depreciated: | | | | |
| Land improvements | 24,920,609 | - | - | 24,920,609 |
| Buildings and improvements | 936,423,135 | - | - | 936,423,135 |
| Furniture and equipment | 14,109,210 | - | - | 14,109,210 |
| Total Capital Assets Being Depreciated | 975,452,954 | - | - | 975,452,954 |
| Total Capital Assets | 1,162,831,062 | 51,400,239 | - | 1,214,231,301 |
| Less Accumulated Depreciation: | | | | |
| Land improvements | 18,197,026 | 530,587 | - | 18,727,613 |
| Buildings and improvements | 155,904,083 | 18,695,676 | - | 174,599,759 |
| Furniture and equipment | 4,290,690 | 1,730,754 | - | 6,021,444 |
| Total Accumulated Depreciation | 178,391,799 | 20,957,017 | - | 199,348,816 |
| Governmental Activities Capital Assets, Net | $ 984,439,263 | $ 30,443,222 | $ - | $ 1,014,882,485 |

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

| | |
|---|---|
| **Governmental Activities** | |
| Instruction | $ 15,172,880 |
| Supervision of instruction | 1,005,937 |
| All other pupil services | 1,152,636 |
| All other administration | 1,446,034 |
| Plant services | 2,179,530 |
| Total Depreciation Expenses Governmental Activities | $ 20,957,017 |

## NOTE 6 - 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, 2016, between major and non-major governmental funds, and the internal service fund are as follows:

| | Due From | | | | |
|---|---|---|---|---|---|
| Due To | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Internal Service Fund | Total |
| General Fund | $ - | $ 2,467 | $ 6,314,259 | $ 4,535,620 | $ 10,852,346 |
| Special Reserve Fund for Capital Outlay Projects | 1,067,096 | - | 513,570 | - | 1,580,666 |
| Non-Major Governmental Funds | 2,212,835 | 480 | 952 | - | 2,214,267 |
| Internal Service Fund | 6,159,085 | 1,486 | 296,500 | - | 6,457,071 |
| Total | $ 9,439,016 | $ 4,433 | $ 7,125,281 | $ 4,535,620 | $ 21,104,350 |

A balance of $1,005,825 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from operating costs.

A balance of $1,654,214 due to the General Fund from the Charter School Non-Major Governmental Fund resulted from operating costs.

A balance of $3,637,172 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of operating costs.

The balance of $4,535,620 due to the General Fund from the Internal Service Fund resulted from reimbursement of excess contributions and a temporary loan.

A balance of $620,073 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from allocation of various categorical funds.

A balance of $76,473 due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from catering.

A balance of $60,000 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund resulted from reimbursement of deferred maintenance projects.

A balance of $1,440,230 due to the Capital Facilities Non-Major Governmental Fund from the General Fund resulted from reclassification of building/modernization expenses.

The balance of $1,067,096 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from reclassification of building/modernization expenses.

The balance of $6,159,085 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.

### Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

| | Transfer From | | |
|---|---|---|---|
| Transfer To | General Fund | Special Reserve Fund for Capital Outlay Projects | Total |
| Special Reserve Fund for Capital Outlay Projects | $ 2,567,096 | $ - | $ 2,567,096 |
| Non-Major Governmental Funds | 4,586,935 | 1,437,022 | 6,023,957 |
| Internal Service Funds | 823,930 | - | 823,930 |
| Total | $ 7,977,961 | $ 1,437,022 | $ 9,414,983 |

| | |
|---|---|
| The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital projects costs. | $ 2,567,096 |
| The General Fund transferred to the Charter School Special Revenue Non-Major Governmental Fund for repayment of program costs. | 303,879 |
| The General Fund transferred to the Cafeteria Non-Major Governmental Fund for repayment of indirect costs charged for program. | 515,489 |
| The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments. | 3,767,567 |
| The General Fund transferred to the Internal Service Non-Major Governmental Fund for health and welfare benefits related costs. | 823,930 |
| The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for reimbursement of solar project expenditures. | 1,437,022 |
| Total | $ 9,414,983 |

## NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Internal Service Fund | Total Governmental Activities |
|---|---|---|---|---|---|
| Vendor payables | $ 38,944 | $ - | $ 18,185 | $ - | $ 57,129 |
| LCFF apportionment | 15,430,837 | - | 35,055 | - | 15,465,892 |
| Salaries and benefits | 15,767,012 | 7,101 | 1,165,950 | 687,931 | 17,627,994 |
| Books and supplies | 5,145,868 | - | 956,083 | - | 6,101,951 |
| Construction | 1,460,386 | 1,045,422 | 1,054,376 | - | 3,560,184 |
| Services and other operating payables | 5,888,285 | 642 | 1,213,023 | - | 7,101,950 |
| Total | $ 43,731,332 | $ 1,053,165 | $ 4,442,672 | $ 687,931 | $ 49,915,100 |

## NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Activities |
|---|---|---|---|---|
| Federal financial assistance | $ 66,239 | $ - | $ - | $ 66,239 |
| State categorical aid | 1,475,244 | 26,434,036 | 37,766 | 27,947,046 |
| Other local | 176,292 | - | - | 176,292 |
| Total | $ 1,717,775 | $ 26,434,036 | $ 37,766 | $ 28,189,577 |

## 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, 2015 | Additions | Deductions | Balance June 30, 2016 | Due in One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 326,497,930 | $ 7,937,105 | $ 9,605,000 | $ 324,830,035 | $ 10,175,000 |
| Premium on issuance | 8,477,796 | - | 441,287 | 8,036,509 | - |
| Certificates of participation | 80,269,593 | 1,668,082 | 3,385,000 | 78,552,675 | 4,420,000 |
| Premium on issuance | 1,180,653 | - | 56,222 | 1,124,431 | - |
| 2002 Qualified zone academy bonds | 7,000,000 | - | - | 7,000,000 | - |
| 2005 Qualified zone academy bonds | 4,500,000 | - | - | 4,500,000 | - |
| Career Technical Education facilities program loan | 1,061,788 | - | 251,524 | 810,264 | 251,524 |
| Compensated absences | 1,897,758 | - | 470,557 | 1,427,201 | - |
| Claims liability | 13,206,109 | 3,949,068 | 3,441,381 | 13,713,796 | 3,441,381 |
| Other postemployment benefits (OPEB) | 49,290,762 | 16,758,432 | 10,431,150 | 55,618,044 | - |
| | $ 493,382,389 | $ 30,312,687 | $ 28,082,121 | $ 495,612,955 | $ 18,287,905 |

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. Career Technical Education facilities program loan will be paid by the General Fund. The accrued vacation will be paid by the fund for which the employees worked. The claims liability is paid from the Internal Service Fund. Other postemployment benefits are generally paid by the General Fund.

### General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2015 | Accreted | Redeemed | Bonds Outstanding June 30, 2016 |
|---|---|---|---|---|---|---|---|
| 10/30/02 | 08/01/32 | 2.68-5.53% | $ 50,828,156 | $ 45,587,686 | $ 2,348,153 | $ 3,505,000 | $ 44,430,839 |
| 08/06/08 | 08/01/33 | 3.50-5.51% | 99,997,856 | 95,852,215 | 1,185,327 | 1,525,000 | 95,512,542 |
| 11/12/09 | 08/01/29 | 3.00-4.25% | 49,775,000 | 41,000,000 | - | 2,065,000 | 38,935,000 |
| 11/20/09 | 08/01/47 | 6.54-7.337% | 34,861,114 | 51,021,075 | 3,950,480 | - | 54,971,555 |
| 11/20/09 | 09/15/26 | 5.91% | 19,240,000 | 19,240,000 | - | - | 19,240,000 |
| 12/02/10 | 08/01/20 | 3.00-5.00% | 8,591,011 | 7,646,954 | 453,145 | 1,195,000 | 6,905,099 |
| 12/02/10 | 08/01/28 | 6.45% | 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 | 9,840,000 | - | 1,075,000 | 8,765,000 |
| 09/19/12 | 08/01/32 | 2.00-3.40% | 19,720,000 | 19,000,000 | - | 240,000 | 18,760,000 |
| | | | | $ 326,497,930 | $ 7,937,105 | $ 9,605,000 | $ 324,830,035 |

### 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, with interest rate yields ranging from 2.68 to 5.53 percent. At June 30, 2016, the principal balance outstanding was $44,430,839 (including accreted interest to date).

### 2008 General Obligation Bonds, Series A

On August 6, 2008, the District issued $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. 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, with interest rate yields ranging from 3.50 to 5.51 percent. At June 30, 2016, the principal balance outstanding was $95,512,542 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2016, was $4,095,916.

### 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, with interest rate yields ranging from 3.0 to 4.25 percent. At June 30, 2016, the principal balance outstanding was $38,935,000.

**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. 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, with interest rate yields ranging from 6.54 to 7.337 percent. At June 30, 2016, the principal balance outstanding was $54,971,555 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2016, was $1,499,150.

**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, with an interest rate yield of 5.91 percent. At June 30, 2016, 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, with interest rate yields ranging from 3.00 to 5.00 percent. At June 30, 2016, the principal balance outstanding was $6,905,099 (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, with an interest rate yield 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, 2016, the principal balance outstanding was $17,535,000. Unamortized premium received on the bonds as of June 30, 2016 was $1,943,872.

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, with interest rate yields ranging from 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, 2016, the principal balance outstanding was $19,775,000.

**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, with interest rate yields ranging from 2.50 to 5.00 percent. At June 30, 2016, the principal balance outstanding was $8,765,000. Unamortized premium received on the bonds as of June 30, 2016 was $497,571.

**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, with interest rate yields ranging from 2.00 to 3.40 percent. At June 30, 2016, the principal balance outstanding was $18,760,000.

**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 |
|---|---|---|---|---|
| 2017 | $ 10,092,435 | $ 82,565 | $ 9,764,277 | $ 19,939,277 |
| 2018 | 10,588,776 | 246,224 | 9,469,321 | 20,304,321 |
| 2019 | 10,879,779 | 770,221 | 10,167,176 | 21,817,176 |
| 2020 | 10,352,722 | 2,032,278 | 11,087,489 | 23,472,489 |
| 2021 | 10,272,170 | 2,707,830 | 11,280,036 | 24,260,036 |
| 2022-2026 | 58,134,599 | 14,110,401 | 52,568,426 | 124,813,426 |
| 2027-2031 | 101,146,083 | 12,423,917 | 26,959,733 | 140,529,733 |
| 2032-2036 | 60,334,751 | 51,350,249 | 7,707,163 | 119,392,163 |
| 2037-2041 | 19,543,658 | 47,816,342 | 2,668,465 | 70,028,465 |
| 2042-2046 | 2,215,000 | - | 155,050 | 2,370,050 |
| 2047-2048 | 31,270,062 | 271,344,938 | - | 302,615,000 |
| Total | $ 324,830,035 | $ 402,884,965 | $ 141,827,136 | $ 869,542,136 |

**Certificates of Participation**

The outstanding certificates of participation debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Outstanding July 1, 2015 | Accreted | Redeemed | Outstanding June 30, 2016 |
|---|---|---|---|---|---|---|---|
| 10/1/99 | 04/01/37 | 3.60-6.25% | $ 17,691,700 | $ 28,624,593 | $ 1,668,082 | $ 1,150,000 | $ 29,142,675 |
| 5/1/07 | 04/01/37 | 3.56-4.41% | 29,725,000 | 24,150,000 | - | 980,000 | 23,170,000 |
| 12/5/12 | 12/01/35 | 4.25-5.20% | 30,000,000 | 27,495,000 | - | 1,255,000 | 26,240,000 |
| | | | | $ 80,269,593 | $ 1,668,082 | $ 3,385,000 | $ 78,552,675 |

On October 1, 1999, the Corporation issued the 1999 Certificates of Participation in the amount of $17,691,700 with interest rate yields 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, 2016, the principal balance outstanding was $29,142,675, including accreted interest on the capital appreciation certificates.

| Year Ending June 30, | Principal Including Accreted Interest | Accreted Interest | Current Interest | Total |
|---|---|---|---|---|
| 2017 | $ 2,022,803 | $ 122,197 | $ 101,475 | $ 2,246,475 |
| 2018 | 1,972,427 | 247,573 | 101,475 | 2,321,475 |
| 2019 | 1,919,226 | 375,774 | 101,475 | 2,396,475 |
| 2020 | - | - | 101,475 | 101,475 |
| 2021 | - | - | 101,475 | 101,475 |
| 2022-2026 | 8,773,866 | 5,471,134 | 507,375 | 14,752,375 |
| 2027-2031 | 7,507,603 | 9,097,397 | 507,375 | 17,112,375 |
| 2032-2036 | 5,756,750 | 9,388,250 | 507,375 | 15,652,375 |
| 2037 | 1,190,000 | - | 65,450 | 1,255,450 |
| Total | $ 29,142,675 | $ 24,702,325 | $ 2,094,950 | $ 55,939,950 |

On May 1, 2007, the Corporation issued the 2007 Certificates of Participation in the amount of $29,725,000 with interest rate yields 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, 2016, the principal balance outstanding was $23,170,000.

| Year Ending June 30, | Principal | Current Interest | Total |
|---|---|---|---|
| 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 | 420,000 | 1,080,765 | 1,500,765 |
| 2021 | 450,000 | 1,063,125 | 1,513,125 |
| 2022-2026 | 2,640,000 | 4,931,588 | 7,571,588 |
| 2027-2031 | 5,710,000 | 3,992,625 | 9,702,625 |
| 2032-2036 | 8,670,000 | 2,204,474 | 10,874,474 |
| 2037 | 2,780,000 | 145,950 | 2,925,950 |
| Total | $ 23,170,000 | $ 16,860,691 | $ 40,030,691 |

On December 5, 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 the Santa Ana Unified School District Public Facilities Corporation, with interest rate yields 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, 2016, the principal balance outstanding was $26,240,000.

| Year Ending June 30, | Principal | Current Interest | Total |
|---|---|---|---|
| 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 | 1,275,000 | 1,018,674 | 2,293,674 |
| 2021 | 1,280,000 | 964,380 | 2,244,380 |
| 2022-2026 | 6,475,000 | 4,000,056 | 10,475,056 |
| 2027-2031 | 6,610,000 | 2,565,694 | 9,175,694 |
| 2032-2036 | 6,805,000 | 889,030 | 7,694,030 |
| Total | $ 26,240,000 | $ 12,817,493 | $ 39,057,493 |

**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, 2016, 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, 2016, the principal balance outstanding was $4,500,000.

### Career Technical Education Facilities Program Loan

The District obtained a long-term loan to fund various startup costs of the career technical education program. At June 30, 2016, the outstanding balance on the loan was $810,264.

| Year Ending June 30, | Principal |
|---|---|
| 2017 | $ 251,524 |
| 2018 | 251,524 |
| 2019 | 153,608 |
| 2020 | 153,608 |
| | $ 810,264 |

### Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2016, amounted to $1,427,201.

### 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 $13,713,796 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, 2016, was $17,400,545, and contributions made by the District during the year were $10,431,150. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,218,084 and $(2,860,197), respectively, which resulted in an increase to the net OPEB obligation of $6,327,282. As of June 30, 2016, the net OPEB obligation was $55,618,044.
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 $11,085,000 as of June 30, 2016, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

## NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total |
|---|---|---|---|---|
| Nonspendable | | | | |
| Revolving cash | $ 190,000 | $ - | $ 7,664 | $ 197,664 |
| Stores inventories | 895,081 | - | 544,030 | 1,439,111 |
| Prepaid expenditures | 62,299 | - | - | 62,299 |
| Total Nonspendable | 1,147,380 | - | 551,694 | 1,699,074 |
| Restricted | | | | |
| Legally restricted programs | 14,492,860 | - | 98,942 | 14,591,802 |
| Cafeteria program | - | - | 22,233,215 | 22,233,215 |
| Capital projects | - | 3,237,710 | 45,480,037 | 48,717,747 |
| Debt services | - | - | 31,523,001 | 31,523,001 |
| Total Restricted | 14,492,860 | 3,237,710 | 99,335,195 | 117,065,765 |
| Committed | | | | |
| Stabilization | 8,047,582 | - | - | 8,047,582 |
| Deferred maintenance program | - | - | 718,660 | 718,660 |
| Total Committed | 8,047,582 | - | 718,660 | 8,766,242 |
| Assigned | | | | |
| Capital projects | - | 6,222,693 | 1,697 | 6,224,390 |
| Other program balances | 64,711,884 | - | - | 64,711,884 |
| Total Assigned | 64,711,884 | 6,222,693 | 1,697 | 70,936,274 |
| Unassigned | | | | |
| Reserve for economic uncertainties | 12,327,715 | - | - | 12,327,715 |
| Total Unassigned | 12,327,715 | - | - | 12,327,715 |
| Total | $ 100,727,421 | $ 9,460,403 | $ 100,607,246 | $ 210,795,070 |

## 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 559 retirees and beneficiaries currently receiving benefits and 4,089 active plan members.

### 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 2015-2016, the District contributed $10,431,150 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 | $ 17,400,545 |
| Interest on net OPEB obligation | 2,218,084 |
| Adjustment to annual required contribution | (2,860,197) |
| Annual OPEB cost (expense) | 16,758,432 |
| Contributions made | (10,431,150) |
| Increase in net OPEB obligation | 6,327,282 |
| Net OPEB obligation, beginning of year | 49,290,762 |
| Net OPEB obligation, end of year | $ 55,618,044 |

### 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 |
|---|---|---|---|---|
| 2014 | $ 15,570,927 | $ 7,645,044 | 49% | $ 43,495,672 |
| 2015 | 15,310,287 | 9,515,197 | 62% | 49,290,762 |
| 2016 | 16,758,432 | 10,431,150 | 62% | 55,618,044 |

### 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) |
|---|---|---|---|---|---|---|
| September 1, 2016 | $ - | $ 203,404,045 | $ 203,404,045 | 0% | $ 358,339,861 | 57% |

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.

In the September 1, 2016, 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, 2016, was 22 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, 2015 to June 30, 2016:

| | Workers' Compensation | Property and Liability | Total |
|---|---|---|---|
| Liability Balance, July 1, 2014 | $ 14,108,839 | $ 542,751 | $ 14,651,590 |
| Claims and changes in estimates | 263,501 | 322,422 | 585,923 |
| Claims payments | (1,490,966) | (540,438) | (2,031,404) |
| Liability Balance, June 30, 2015 | 12,881,374 | 324,735 | 13,206,109 |
| Claims and changes in estimates | 2,738,411 | 1,210,657 | 3,949,068 |
| Claims payments | (2,738,411) | (702,970) | (3,441,381) |
| Liability Balance, June 30, 2016 | $ 12,881,374 | $ 832,422 | $ 13,713,796 |
| Assets available to pay claims at June 30, 2016 | $ 27,117,423 | $ 6,439,175 | $ 33,556,598 |

## NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

| Pension Plan | Collective Net Pension Liability | Collective Deferred Outflows of Resources | Collective Deferred Inflows of Resources | Collective Pension Expense |
|---|---|---|---|---|
| CalSTRS | $ 362,799,016 | $ 80,108,646 | $ 64,221,634 | $ 31,709,614 |
| CalPERS | 105,921,641 | 36,274,971 | 30,664,101 | 7,590,148 |
| CalPERS - Safety Risk Pool | 2,034,198 | 1,310,962 | 2,244,306 | 818,598 |
| Total | $ 470,754,855 | $ 117,694,579 | $ 97,130,041 | $ 40,118,360 |

The details of each plan are as follows:

### California State Teachers' Retirement System (CalSTRS)

#### Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

#### Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|---|---|
| Hire date | On or before December 31, 2012 | On or after January 1, 2013 |
| Benefit formula | 2% at 60 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 60 | 62 |
| Monthly benefits as a percentage of eligible compensation | 2.0% - 2.4% | 2.0% - 2.4% |
| Required employee contribution rate | 9.20% | 8.56% |
| Required employer contribution rate | 10.73% | 10.73% |
| Required state contribution rate | 7.12589% | 7.12589% |

**Contributions**

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were $28,047,946.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

| | | |
|---|---|---|
| Total net pension liability, including State share: | | |
| District's proportionate share of net pension liability | $ | 362,799,016 |
| State's proportionate share of the net pension liability associated with the District | | 191,880,686 |
| Total | $ | 554,679,702 |

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.5389 percent and 0.5013 percent, resulting in a net increase in the proportionate share of 0.0376 percent.

For the year ended June 30, 2016, the District recognized pension expense of $31,709,614. In addition, the District recognized pension expense and revenue of $14,863,314 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|---|---|---|---|
| Pension contributions subsequent to measurement date | $ | 28,047,946 | $ | - |
| Net change in proportionate share of net pension liability | | 23,475,539 | | - |
| Difference between projected and actual earnings on pension plan investments | | 28,585,161 | | 58,159,176 |
| Differences between expected and actual experience in the measurement of the total pension liability | | - | | 6,062,458 |
| Total | $ | 80,108,646 | $ | 64,221,634 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (12,240,102) |
| 2018 | (12,240,102) |
| 2019 | (12,240,102) |
| 2020 | 7,146,291 |
| Total | $ (29,574,015) |

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL of the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ 2,902,180 |
| 2018 | 2,902,180 |
| 2019 | 2,902,180 |
| 2020 | 2,902,180 |
| 2021 | 2,902,180 |
| Thereafter | 2,902,181 |
| Total | $ 17,413,081 |

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2014 |
| Measurement date | June 30, 2015 |
| Experience study | July 1, 2006 through June 30, 2010 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.60% |
| Investment rate of return | 7.60% |
| Consumer price inflation | 3.00% |
| Wage growth | 3.75% |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 4.50% |
| Private equity | 12% | 6.20% |
| Real estate | 15% | 4.35% |
| Inflation sensitive | 5% | 3.20% |
| Fixed income | 20% | 0.20% |
| Cash/liquidity | 1% | 0.00% |

### Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.60%) | $ 547,798,277 |
| Current discount rate (7.60%) | 362,799,016 |
| 1% increase (8.60%) | 209,049,703 |

## California Public Employees Retirement System (CalPERS)

### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety, 2014. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|---|---|
| Hire date | On or before December 31, 2012 | On or after January 1, 2013 |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 62 |
| Monthly benefits as a percentage of eligible compensation | 1.1% - 2.5% | 1.0% - 2.5% |
| Required employee contribution rate | 7.000% | 6.000% |
| Required employer contribution rate | 11.847% | 11.847% |

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions for CalPERS and CalPERS Safety Risk Pool were $10,680,160 and $371,309, respectively.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS and CalPERS Safety Risk Pool net pension liability totaling $105,921,641 and $2,034,198, respectively. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's CalPERS' proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.7186 percent and 0.7462 percent, resulting in a net decrease in the proportionate share of 0.0276 percent. The District's CalPERS Safety Risk Pool's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.0494 percent and 0.0302 percent, resulting in a net increase in the proportionate share of 0.0192 percent.

For the year ended June 30, 2016, the District recognized pension expense of $7,590,148 for CalPERS and $818,598 for CalPERS Safety Risk Pool. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | CalPERS | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | $ 10,680,160 | $ - |
| Net change in proportionate share of net pension liability | 2,144,731 | 3,132,632 |
| Difference between projected and actual earnings on pension plan investments | 17,396,502 | 21,023,349 |
| Differences between expected and actual experience in the measurement of the total pension liability | 6,053,578 | - |
| Changes of assumptions | - | 6,508,120 |
| Total | $ 36,274,971 | $ 30,664,101 |

| | CalPERS Safety Risk Pool | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | $ 371,309 | $ - |
| Net change in proportionate share of net pension liability | - | 653,600 |
| Difference between projected and actual earnings on pension plan investments | 939,653 | 1,131,019 |
| Differences between expected and actual experience in the measurement of the total pension liability | - | 82,096 |
| Changes of assumptions | - | 377,591 |
| Total | $ 1,310,962 | $ 2,244,306 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | CalPERS Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (2,658,657) |
| 2018 | (2,658,657) |
| 2019 | (2,658,657) |
| 2020 | 4,349,124 |
| Total | $ (3,626,847) |

| Year Ended June 30, | CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (142,093) |
| 2018 | (142,093) |
| 2019 | (142,093) |
| 2020 | 234,913 |
| Total | $ (191,366) |

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

| Year Ended June 30, | CalPERS Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (164,592) |
| 2018 | (164,591) |
| 2019 | (1,113,260) |
| Total | $ (1,442,443) |

| Year Ended June 30, | CalPERS Safety Risk Pool Deferred (Inflows) of Resources |
|---|---|
| 2017 | $ (397,603) |
| 2018 | (397,603) |
| 2019 | (318,081) |
| Total | $ (1,113,287) |

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2014 |
| Measurement date | June 30, 2015 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.65% |
| Investment rate of return | 7.65% |
| Consumer price inflation | 2.75% |
| Wage growth | Varies by entry age and service |

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 51% | 5.25% |
| Global fixed income | 19% | 0.99% |
| Private equity | 10% | 6.83% |
| Real estate | 10% | 4.50% |
| Inflation sensitive | 6% | 0.45% |
| Infrastructure and Forestland | 2% | 4.50% |
| Liquidity | 2% | -0.55% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| Discount rate | CalPERS Net Pension Liability |
|---|---|
| 1% decrease (6.65%) | $ 172,396,293 |
| Current discount rate (7.65%) | 105,921,641 |
| 1% increase (8.65%) | 50,643,524 |

| Discount rate | CalPERS Safety Risk Pool Net Pension Liability |
|---|---|
| 1% decrease (6.65%) | $ 3,261,519 |
| Current discount rate (7.65%) | 2,034,198 |
| 1% increase (8.65%) | 1,027,818 |

**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 $15,987,142 (7.12589 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 not been included in the calculation of available reserves, and have not been included in the original 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, 2016.

### 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, 2016.

### Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

| Capital Projects | Remaining Construction Commitment | Expected Date of Completion |
|---|---|---|
| Franklin ES - concrete ramps and stairs | $ 27,620 | 08/30/16 |
| Segerstrom HS - track and football field | 45,922 | 08/31/16 |
| Saddleback HS - buildings G & H | 175,793 | 09/27/16 |
| King ES - HVAC | 497,098 | 01/18/17 |
| Pio Pico ES - HVAC | 543,193 | 01/18/17 |
| Valley HS - HVAC | 687,323 | 06/30/17 |
| 5K LED lighting project - phase 2 | 355,719 | 06/30/17 |
| Valley HS - Valley P2P | 12,010 | 06/30/17 |
| McFadden Intermediate modernization - phase 1 | 472,012 | 06/30/17 |
| Remington ES - modernization - phase 1 | 520,132 | 06/30/17 |
| Century HS - bleacher replacement | 73,361 | 06/30/17 |
| | $ 3,410,183 | |

## 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 entities for its property and liability coverage, and excess property and liability coverage, respectively. 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, 2016, the District made payments of $2,094,814 and $169,221 to ASCIP and SELF, respectively, for property and liability coverage, and excess property and liability coverage.

# *REQUIRED SUPPLEMENTARY INFORMATION*

## SANTA ANA UNIFIED SCHOOL DISTRICT

## GENERAL FUND
## BUDGETARY COMPARISON SCHEDULE
## FOR THE YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variances - Positive (Negative) Final |
|---|---|---|---|---|
| | Original | Final | (GAAP Basis) | to Actual |
| **REVENUES** | | | | |
| Local Control Funding Formula | $ 489,881,277 | $ 488,151,233 | $ 489,808,998 | $ 1,657,765 |
| Federal sources | 43,165,152 | 57,627,112 | 49,331,463 | (8,295,649) |
| Other State sources | 54,224,631 | 105,146,671 | 104,728,530 | (418,141) |
| Other local sources | 15,281,734 | 16,973,163 | 16,265,250 | (707,913) |
| **Total Revenues** [1] | 602,552,794 | 667,898,179 | 660,134,241 | (7,763,938) |
| **EXPENDITURES** | | | | |
| Current | | | | |
| Certificated salaries | 263,673,921 | 280,886,246 | 274,572,980 | 6,313,266 |
| Classified salaries | 88,583,235 | 90,383,299 | 88,714,524 | 1,668,775 |
| Employee benefits | 116,985,990 | 134,660,265 | 135,432,950 | (772,685) |
| Books and supplies | 26,714,543 | 37,203,506 | 30,389,401 | 6,814,105 |
| Services and operating expenditures | 72,286,689 | 79,577,117 | 68,589,470 | 10,987,647 |
| Other outgo | 3,479,205 | 2,987,491 | 2,765,931 | 221,560 |
| Capital outlay | 3,761,898 | 5,764,854 | 4,027,084 | 1,737,770 |
| Debt service - principal | - | 251,524 | 251,524 | - |
| Debt service - interest | - | - | 5,639 | (5,639) |
| **Total Expenditures** [1] | 575,485,481 | 631,714,302 | 604,749,503 | 26,964,799 |
| **Excess of Revenues Over Expenditures** | 27,067,313 | 36,183,877 | 55,384,738 | 19,200,861 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | - | 1,035 | - | (1,035) |
| Transfers out | (7,647,235) | (19,665,412) | (7,977,961) | 11,687,451 |
| **Net Financing Sources (Uses)** | (7,647,235) | (19,664,377) | (7,977,961) | 11,686,416 |
| **NET CHANGE IN FUND BALANCES** | 19,420,078 | 16,519,500 | 47,406,777 | 30,887,277 |
| **Fund Balances - Beginning** | 53,320,644 | 53,320,644 | 53,320,644 | - |
| **Fund Balances - Ending** | $ 72,740,722 | $ 69,840,144 | $ 100,727,421 | $ 30,887,277 |

[1] On behalf payments of $15,987,142 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

# SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2016

| 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) |
|---|---|---|---|---|---|---|
| July 1, 2011 | $ - | $ 120,452,385 | $ 120,452,385 | 0% | $ 301,041,077 | 40% |
| August 1, 2014 | - | 150,193,056 | 150,193,056 | 0% | 329,360,215 | 46% |
| September 1, 2016 | - | 203,404,045 | 203,404,045 | 0% | 358,339,861 | 57% |

See accompanying note to required supplementary information.

# SANTA ANA UNIFIED SCHOOL DISTRICT

# SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
# FOR THE YEAR ENDED JUNE 30, 2016

| | 2016 | 2015 |
|---|---|---|
| **CalSTRS** | | |
| District's proportion of the net pension liability | 0.5389% | 0.5013% |
| District's proportionate share of the net pension liability | $ 362,799,016 | $ 292,931,830 |
| State's proportionate share of the net pension liability associated with the District | 191,880,686 | 176,884,886 |
| Total | 554,679,702 | $ 469,816,716 |
| District's covered - employee payroll | $ 245,668,908 | $ 224,429,169 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 147.68% | 130.52% |
| Plan fiduciary net position as a percentage of the total pension liability | 74% | 77% |
| **CalPERS** | | |
| District's proportion of the net pension liability | 0.7186% | 0.7462% |
| District's proportionate share of the net pension liability | 105,921,641 | $ 84,713,519 |
| District's covered - employee payroll | $ 79,423,023 | $ 74,554,979 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 133.36% | 113.63% |
| Plan fiduciary net position as a percentage of the total pension liability | 79% | 83% |
| **CalPERS - SAFETY RISK POOL** | | |
| District's proportion of the net pension liability | 0.0494% | 0.0302% |
| District's proportionate share of the net pension liability | 2,034,198 | $ 1,878,447 |
| District's covered - employee payroll | $ 1,960,237 | $ 1,714,755 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 103.77% | 109.55% |
| Plan fiduciary net position as a percentage of the total pension liability | 79% | 83% |

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

## SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT CONTRIBUTIONS
## FOR THE YEAR ENDED JUNE 30, 2016

| | 2016 | 2015 |
|---|---|---|
| **CalSTRS** | | |
| Contractually required contribution | $ 28,047,946 | $ 21,815,399 |
| Contributions in relation to the contractually required contribution | 28,047,946 | 21,815,399 |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered - employee payroll | $ 261,397,446 | $ 245,668,908 |
| Contributions as a percentage of covered - employee payroll | 10.73% | 8.88% |

| | 2016 | 2015 |
|---|---|---|
| **CalPERS** | | |
| Contractually required contribution | $ 10,680,160 | $ 9,348,884 |
| Contributions in relation to the contractually required contribution | 10,680,160 | 9,348,884 |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered - employee payroll | $ 90,150,755 | $ 79,423,023 |
| Contributions as a percentage of covered - employee payroll | 11.847% | 11.771% |

| | 2016 | 2015 |
|---|---|---|
| **CalPERS - SAFETY RISK POOL** | | |
| Contractually required contribution | $ 371,309 | $ 313,139 |
| Contributions in relation to the contractually required contribution | 371,309 | 313,139 |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered - employee payroll | $ 1,960,237 | $ 1,714,755 |
| Contributions as a percentage of covered - employee payroll | 18.94% | 18.26% |

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

# NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
# JUNE 30, 2016

## NOTE 1 - PURPOSE OF SCHEDULES

### Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

### Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

### Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

### Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

### Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

### Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

# *SUPPLEMENTARY INFORMATION*

## SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2016

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed through California Department of Education (CDE): | | | |
| Fund for the Improvement of Education - Fitness for All | 84.215E | [1] | $ 268,204 |
| No Child Left Behind Act (NCLB) | | | |
| Title I, Part A - Low Income and Neglected | 84.010 | 14329 | 19,086,256 |
| Title I, Part G - Advance Placement Test Fee Reimbursement Program | 84.330B | 14831 | 255,266 |
| Title I, Part C - Migrant Education Summer Program | 84.011 | 10005 | 9,061 |
| Title I, Part C - Migrant Education (Regular and Summer Program) | 84.011 | 14326 | 546,649 |
| Title I - School Improvement Grant | 84.377 | 15248 | 2,074,633 |
| Title II, Part A - Improving Teacher Quality | 84.367 | 14341 | 3,072,297 |
| Title III - Limited English Proficient Student Program | 84.365 | 14346 | 2,553,257 |
| Title II, Part B - CA Mathematics and Science Partnerships | 84.366 | 14512 | 133,761 |
| Title IV, Part B, 21st Century Community Learning Centers Program | 84.287 | 14349 | 1,386,656 |
| Title X - McKinney-Vento Homeless Assistance Grants | 84.196A | 14332 | 194,141 |
| Special Education (IDEA) Cluster: | | | |
| Local Assistance Entitlement, Part B, Sec 611 | 84.027 | 13379 | 9,390,876 |
| Preschool Local Entitlement, Part B, Sec 611 | 84.027A | 13682 | 773,219 |
| Preschool Grants, Part B, Sec 619 | 84.173 | 13430 | 332,983 |
| Mental Health Allocation Plan, Part B, Sec 611 | 84.027A | 15197 | 633,659 |
| Preschool Staff Development, Part B, Sec 619 | 84.173A | 13431 | 3,842 |
| Alternate Dispute Resolution, Part B, Sec 611 | 84.173A | 13007 | 17,861 |
| Total Special Education (IDEA) Cluster | | | 11,152,440 |
| Early Intervention Grants | 84.181 | 23761 | 282,678 |
| Passed through Central County Regional Occupancy Program: | | | |
| Carl D. Perkins Vocational and Technical Education Act Secondary, Section 131 (Vocational Education) | 84.048 | 14894 | 542,832 |
| Passed through Rancho Santiago Community College District: | | | |
| California State Gear-Up Program | 84.334A | 10088 | 57,239 |
| Passed through California Department of Rehabilitation: | | | |
| Workability II, Transition Partnership | 84.126 | 10006 | 297,530 |
| Total U.S. Department of Education | | | 41,912,900 |

[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, 2016

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through CDE: | | | |
| Child Nutrition Cluster: | | | |
| National School Lunch Program | 10.555 | 13396 | $ 21,915,442 |
| Especially Needy Breakfast Program | 10.553 | 13390 | 5,346,712 |
| Commodities | 10.555 | 13389 | 2,798,251 |
| Seamless Summer Feeding Program | 10.559 | 13004 | 1,438,847 |
| Total Child Nutrition Cluster | | | 31,499,252 |
| Child and Adult Care Food Program | 10.558 | 13393 | 3,695,643 |
| Passed through County of Orange - Health Care Agency: | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance | 10.574 | [1] | 61,659 |
| Total U.S. Department of Agriculture | | | 35,256,554 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through California Department of Health Services: | | | |
| Medi-Cal Assistance Program: | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 2,243,123 |
| Medi-Cal Administrative Activities | 93.778 | 10060 | 749,667 |
| Total Medi-Cal Assistance Program | | | 2,992,790 |
| Passed through Orange County Head Start, Inc. | | | |
| Head Start | 93.600 | 10016 | 3,533,200 |
| Total U.S. Department of Health and Human Services | | | 6,525,990 |
| NATIONAL SCIENCE FOUNDATION | | | |
| Passed through Regents of the University of California, Irvine: | | | |
| Irvine Mathematics Project | 47.076 | [1] | 151,103 |
| U.S. DEPARTMENT OF DEFENSE | | | |
| Junior Reserve Officer Training Corps | 12.000 | [1] | 134,542 |
| Total Expenditures of Federal Awards | | | $ 83,981,089 |

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

# LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
# JUNE 30, 2016

## 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, one charter school, ten special schools/programs, and three alternative high schools.

## GOVERNING BOARD

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| John Palacio | President | 2018 |
| Rob Richardson | Vice President | 2016 |
| Valerie Amezcua | Clerk | 2018 |
| José Alfredo Hernández, J.D. | Member | 2016 |
| Cecilia Iglesias | Member | 2016 |

## ADMINISTRATION

| | |
|---|---|
| Richard L. Miller, Ph.D. | Superintendent |
| David Haglund | Deputy Superintendent, Educational Services |
| Stefanie P. Phillips, Ed.D. | Deputy Superintendent, Operations |
| Tina Douglas | Assistant Superintendent, Business Services |
| Michelle Rodriguez, Ed.D. | Assistant Superintendent, Elementary Education |
| Dawn Miller | Assistant Superintendent, Secondary Education |
| Doreen Lohnes | Assistant Superintendent, Support Services |
| Orin Williams | 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, 2016

| | Final Report | |
|---|---|---|
| | Second Period Report 793BA5EE | Annual Report 585E0EEB |
| Regular ADA | | |
| Transitional kindergarten through third | 16,195.29 | 16,181.58 |
| Fourth through sixth | 12,049.49 | 12,035.12 |
| Seventh and eighth | 7,494.90 | 7,475.66 |
| Ninth through twelfth | 14,002.80 | 13,898.55 |
| Total Regular ADA | 49,742.48 | 49,590.91 |
| Extended Year Special Education | | |
| Transitional kindergarten through third | 68.01 | 68.01 |
| Fourth through sixth | 24.84 | 24.84 |
| Seventh and eighth | 5.17 | 5.17 |
| Ninth through twelfth | 55.02 | 55.02 |
| Total Extended Year Special Education | 153.04 | 153.04 |
| Special Education, Nonpublic, Nonsectarian Schools | | |
| Transitional kindergarten through third | 2.75 | 2.44 |
| Fourth through sixth | 6.95 | 6.32 |
| Seventh and eighth | 5.02 | 4.33 |
| Ninth through twelfth | 10.86 | 9.66 |
| Total Special Education, Nonpublic, Nonsectarian Schools | 25.58 | 22.75 |
| Extended Year Special Education, Nonpublic, Nonsectarian Schools | | |
| Transitional kindergarten through third | 0.11 | 0.11 |
| Fourth through sixth | 0.74 | 0.74 |
| Seventh and eighth | 0.15 | 0.15 |
| Ninth through twelfth | 0.95 | 0.95 |
| Total Extended Year Special Education, Nonpublic, Nonsectarian Schools | 1.95 | 1.95 |
| Community Day School | | |
| Seventh and eighth | 6.77 | 9.14 |
| Ninth through twelfth | 27.56 | 26.31 |
| Total Community Day School | 34.33 | 35.45 |
| Total ADA | 49,957.38 | 49,804.10 |

**CHARTER SCHOOL - Advanced Learning Academy**

| | FB564259 | 1F0845AF |
|---|---|---|
| Regular ADA | | |
| Fourth through sixth | 121.76 | 123.87 |
| Classroom based ADA | | |
| Fourth through sixth | 121.76 | 123.87 |

See accompanying note to supplementary information.

## SANTA ANA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME
## FOR THE YEAR ENDED JUNE 30, 2016

| Grade Level | 1986-87 Minutes Requirement | 2015-16 Actual Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|---|---|---|---|---|---|
| Kindergarten | 36,000 | 36,000 | 180 | - | Complied |
| Grades 1 - 3 | 50,400 | | | | |
| Grade 1 | | 50,830 | 180 | - | Complied |
| Grade 2 | | 50,830 | 180 | - | Complied |
| Grade 3 | | 50,830 | 180 | - | Complied |
| Grades 4 - 6 | 54,000 | | | | |
| Grade 4 | | 54,434 | 180 | - | Complied |
| Grade 5 | | 54,434 | 180 | - | Complied |
| Grade 6 | | 54,434 | 180 | - | Complied |
| Grades 7 - 8 | 54,000 | | | | |
| Grade 7 | | 54,434 | 180 | - | Complied |
| Grade 8 | | 54,434 | 180 | - | Complied |
| Grades 9 - 12 | 64,800 | | | | |
| Grade 9 | | 64,800 | 180 | - | Complied |
| Grade 10 | | 64,800 | 180 | - | Complied |
| Grade 11 | | 64,800 | 180 | - | Complied |
| Grade 12 | | 64,800 | 180 | - | Complied |

**CHARTER SCHOOL - Advanced Learning Academy**

| Grade Level | 1986-87 Minutes Requirement | 2015-16 Actual Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|---|---|---|---|---|---|
| Grades 4 - 6 | 54,000 | | | | |
| Grade 4 | | 55,514 | 180 | - | Complied |
| Grade 5 | | 55,514 | 180 | - | Complied |
| Grade 6 | | 55,514 | 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, 2016

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

| | General Fund |
|---|---|
| NET ASSETS | |
| Balance, June 30, 2016, | |
| Unaudited Actuals | $ 105,708,571 |
| Decrease in: | |
| Prepaid expenditures | (4,810,000) |
| Cash in banks | (171,150) |
| Balance, June 30, 2016, | |
| Audited Financial Statement | $ 100,727,421 |

See accompanying note to supplementary information.

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
## FOR THE YEAR ENDED JUNE 30, 2016

| | (Budget) 2017[1] | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| GENERAL FUND [4] | | | | |
| Revenues | $ 643,685,182 | $ 660,120,516 | $ 551,942,335 | $ 490,412,451 |
| Other sources | - | - | 1,313,312 | - |
| Total Revenues and Other Sources | 643,685,182 | 660,120,516 | 553,255,647 | 490,412,451 |
| Expenditures | 626,061,552 | 604,749,503 | 537,077,396 | 493,142,245 |
| Other uses and transfers out | 6,828,416 | 25,002,747 | 8,321,414 | 4,238,912 |
| Total Expenditures and Other Uses | 632,889,968 | 629,752,250 | 545,398,810 | 497,381,157 |
| INCREASE (DECREASE) IN FUND BALANCE | $ 10,795,214 | $ 30,368,266 | $ 7,856,837 | $ (6,968,706) |
| ENDING FUND BALANCE | $ 91,483,991 | $ 80,688,777 | $ 50,320,511 | $ 42,463,674 |
| AVAILABLE RESERVES[2] | $ 12,657,799 | $ 12,327,715 | $ 11,092,113 | $ 9,689,804 |
| AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3] | 2.00% | 2.01% | 2.08% | 2.00% |
| LONG-TERM OBLIGATIONS | N/A | $ 495,612,955 | $ 493,382,389 | $ 491,336,718 |
| K-12 AVERAGE DAILY ATTENDANCE AT P-2 [4] | 48,346 | 49,957 | 51,090 | 51,776 |

The General Fund balance has increased by $38,225,103 over the past two years. The fiscal year 2016-2017 budget projects an increase of $10,795,214 (13.4 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 surpluses in two of the past three years and anticipates incurring an operating surplus during the 2016-2017 fiscal year. Total long-term obligations have increased by $4,276,237 over the past two years.

Average daily attendance has decreased by 1,819 over the past two years. An additional decline of 1,611 ADA is anticipated during fiscal year 2016-2017.

[1] Budget 2017 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

[3] On behalf payments of $15,987,142, $13,067,273, and $12,890,963 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.

[4] General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

**SANTA ANA UNIFIED SCHOOL DISTRICT**

## SCHEDULE OF CHARTER SCHOOLS
## FOR THE YEAR ENDED JUNE 30, 2016

| Name of Charter School | Included in Audit Report |
|---|---|
| Advanced Learning Academy (Charter No. 1765) | Yes |
| Edward B. Cole Academy (Charter No. 0578) | No |
| El Sol Santa Ana Science and Arts Academy (Charter No. 0365) | No |
| NOVA Academy (Charter No. 0365) | No |
| Orange County High School of the Arts (Charter No. 0290) | No |
| Orange County Educational Arts Academy (Charter No. 0701) | No |

See accompanying note to supplementary information.

## SANTA ANA UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS
## COMBINING BALANCE SHEET
## JUNE 30, 2016

| | Charter School Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Building Fund |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Deposits and investments | $ 1,082,468 | $ 1,270,984 | $ 22,400,203 | $ 808,177 | $ 4,298,855 |
| Receivables | 25,553 | 262,629 | 6,486,402 | 558 | 2,855 |
| Due from other funds | 620,073 | 965 | 76,953 | 60,472 | 1,756 |
| Stores inventories | - | - | 544,030 | - | - |
| **Total Assets** | $ 1,728,094 | $ 1,534,578 | $ 29,507,588 | $ 869,207 | $ 4,303,466 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| **Liabilities:** | | | | | |
| Accounts payable | 72,321 | $ 375,472 | $ 2,814,807 | $ 124,879 | $ 107,591 |
| Due to other funds | 1,655,773 | 1,022,398 | 3,907,872 | 25,668 | - |
| Unearned revenue | - | 37,766 | - | - | - |
| **Total Liabilities** | 1,728,094 | 1,435,636 | 6,722,679 | 150,547 | 107,591 |
| **Fund Balances:** | | | | | |
| Nonspendable | - | - | 551,694 | - | - |
| Restricted | - | 98,942 | 22,233,215 | - | 4,195,875 |
| Committed | - | - | - | 718,660 | - |
| Assigned | - | - | - | - | - |
| **Total Fund Balances** | - | 98,942 | 22,784,909 | 718,660 | 4,195,875 |
| **Total Liabilities and Fund Balances** | $ 1,728,094 | $ 1,534,578 | $ 29,507,588 | $ 869,207 | $ 4,303,466 |

See accompanying note to supplementary information.

| Capital Facilities Fund | County School Facilities Fund | Capital Projects Fund for Blended Component Units | Bond Interest and Redemption Fund | Debt Service Fund for Blended Component Units | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|
| $ 12,738,522 | $ 27,143,542 | $ 828,611 | $ 21,223,061 | $ 10,299,939 | $ 102,094,362 |
| 51,655 | 17,053 | 30 | - | 513,571 | 7,360,306 |
| 1,454,048 | - | - | - | - | 2,214,267 |
| - | - | - | - | - | 544,030 |
| $ 14,244,225 | $ 27,160,595 | $ 828,641 | $ 21,223,061 | $ 10,813,510 | $ 112,212,965 |
| | | | | | |
| $ 463,742 | $ 483,859 | $ 1 | $ - | $ - | $ 4,442,672 |
| - | - | - | - | 513,570 | 7,125,281 |
| - | - | - | - | - | 37,766 |
| 463,742 | 483,859 | 1 | - | 513,570 | 11,605,719 |
| | | | | | |
| - | - | - | - | - | 551,694 |
| 13,780,483 | 26,676,736 | 826,943 | 21,223,061 | 10,299,940 | 99,335,195 |
| - | - | - | - | - | 718,660 |
| - | - | 1,697 | - | - | 1,697 |
| 13,780,483 | 26,676,736 | 828,640 | 21,223,061 | 10,299,940 | 100,607,246 |
| | | | | | |
| $ 14,244,225 | $ 27,160,595 | $ 828,641 | $ 21,223,061 | $ 10,813,510 | $ 112,212,965 |

## 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, 2016

| | Charter School Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Building Fund |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Local Control Funding Formula | $ 1,065,757 | $ - | $ - | $ - | $ - |
| Federal sources | - | - | 35,194,895 | - | - |
| Other State sources | 61,422 | 3,964,819 | 2,357,504 | 2,229,752 | - |
| Other local sources | 3,422 | 24,140 | 2,307,717 | 21,871 | 46,519 |
| **Total Revenues** | 1,130,601 | 3,988,959 | 39,860,116 | 2,251,623 | 46,519 |
| **EXPENDITURES** | | | | | |
| Current | | | | | |
| Instruction | 1,016,424 | 2,919,688 | - | - | - |
| Instruction-related activities: | | | | | |
| Supervision of instruction | 128,607 | 279,906 | - | - | - |
| School site administration | 118,324 | 262,672 | - | - | - |
| Pupil services: | | | | | |
| Food services | - | - | 37,289,217 | - | - |
| All other pupil services | 38,149 | 278,744 | - | - | - |
| Administration: | | | | | |
| All other administration | 61,895 | 235,641 | 1,658,691 | - | - |
| Plant services | 71,081 | - | 143,396 | 3,333,403 | 10,784 |
| Facility acquisition and construction | - | - | 96,413 | 2,556 | 6,799,626 |
| Enterprise services | - | - | 172,496 | - | - |
| Debt service | | | | | |
| Principal | - | - | - | - | - |
| Interest and other | - | - | - | - | - |
| **Total Expenditures** | 1,434,480 | 3,976,651 | 39,360,213 | 3,335,959 | 6,810,410 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (303,879) | 12,308 | 499,903 | (1,084,336) | (6,763,891) |
| **Other Financing Sources** | | | | | |
| Transfers in | 303,879 | - | 515,489 | - | - |
| **NET CHANGE IN FUND BALANCES** | - | 12,308 | 1,015,392 | (1,084,336) | (6,763,891) |
| **Fund Balances - Beginning** | - | 86,634 | 21,769,517 | 1,802,996 | 10,959,766 |
| **Fund Balances - Ending** | $ - | $ 98,942 | $ 22,784,909 | $ 718,660 | $ 4,195,875 |

See accompanying note to supplementary information.

| Capital Facilities Fund | County School Facilities Fund | Capital Projects Fund for Blended Component Units | Bond Interest and Redemption Fund | Debt Service Fund for Blended Component Units | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ 1,065,757 |
| - | - | - | 1,332,035 | - | 36,526,930 |
| - | (55,127) | - | 81,611 | - | 8,639,981 |
| 6,924,762 | 172,808 | 2,123 | 19,393,160 | 1,391,627 | 30,288,149 |
| 6,924,762 | 117,681 | 2,123 | 20,806,806 | 1,391,627 | 76,520,817 |
| - | - | - | - | - | 3,936,112 |
| - | - | - | - | - | 408,513 |
| - | - | - | - | - | 380,996 |
| - | - | - | - | - | 37,289,217 |
| - | - | - | - | - | 316,893 |
| 79,755 | - | - | - | - | 2,035,982 |
| 2,160 | 17,925 | 245 | - | - | 3,578,994 |
| 3,719,934 | 2,698,174 | 4,993 | - | - | 13,321,696 |
| - | - | - | - | - | 172,496 |
| - | - | - | 9,605,000 | 3,385,000 | 12,990,000 |
| - | - | - | 10,005,984 | 2,476,108 | 12,482,092 |
| 3,801,849 | 2,716,099 | 5,238 | 19,610,984 | 5,861,108 | 86,912,991 |
| 3,122,913 | (2,598,418) | (3,115) | 1,195,822 | (4,469,481) | (10,392,174) |
| - | - | - | - | 5,204,589 | 6,023,957 |
| 3,122,913 | (2,598,418) | (3,115) | 1,195,822 | 735,108 | (4,368,217) |
| 10,657,570 | 29,275,154 | 831,755 | 20,027,239 | 9,564,832 | 104,975,463 |
| $ 13,780,483 | $ 26,676,736 | $ 828,640 | $ 21,223,061 | $ 10,299,940 | $ 100,607,246 |

## 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, 2016

| (Amounts in thousands) | Actual Results for the Years | | | | | |
|---|---|---|---|---|---|---|
| | 2015-2016 | | 2014-2015 | | 2013-2014 | |
| | Amount | Percent of Revenue | Amount | Percent of Revenue | Amount | Percent of Revenue |
| REVENUES | | | | | | |
| Federal revenue | $ 49,331 | 7.5 | $ 41,951 | 7.6 | $ 44,305 | 9.0 |
| State and local revenue limit in Local Control Funding Formula | 489,809 | 74.1 | 415,939 | 75.3 | 353,362 | 72.1 |
| Other State revenue | 104,729 | 15.9 | 77,583 | 14.1 | 82,952 | 16.9 |
| Other local revenue | 15,151 | 2.3 | 11,457 | 2.1 | 8,667 | 1.8 |
| Tuition and transfers in | 1,101 | 0.2 | 5,012 | 0.9 | 1,127 | 0.2 |
| Total Revenues | 660,121 | 100.0 | 551,942 | 100.0 | 490,413 | 100.0 |
| EXPENDITURES | | | | | | |
| Salaries and Benefits | | | | | | |
| Certificated salaries | 274,573 | 41.6 | 251,124 | 45.5 | 236,003 | 48.1 |
| Classified salaries | 88,715 | 13.4 | 76,750 | 13.9 | 71,250 | 14.5 |
| Employee benefits | 135,433 | 20.5 | 116,910 | 21.2 | 109,314 | 22.3 |
| Total Salaries and Benefits | 498,721 | 75.5 | 444,784 | 80.6 | 416,567 | 84.9 |
| Books and supplies | 30,389 | 4.6 | 27,167 | 4.9 | 19,027 | 3.9 |
| Contracts and operating expenses | 68,589 | 10.4 | 53,385 | 9.7 | 52,613 | 10.7 |
| Capital outlay | 4,027 | 0.2 | 7,911 | 0.2 | 1,176 | 0.2 |
| Other outgo | 3,024 | 0.5 | 3,830 | 0.7 | 3,759 | 0.8 |
| Total Expenditures | 604,750 | 91.2 | 537,077 | 96.1 | 493,142 | 100.5 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 55,371 | 8.8 | 14,865 | 3.9 | (2,729) | (0.5) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | (8,321) | (1.5) | (4,239) | (0.9) |
| Transfers out | (25,003) | (3.8) | 1,313 | - | - | - |
| INCREASE (DECREASE) IN FUND BALANCE | 30,368 | 5.0 | 7,857 | 2.4 | (6,968) | (1.4) |
| FUND BALANCE, BEGINNING | 50,321 | | 42,464 | | 49,432 | |
| FUND BALANCE, ENDING | $ 80,689 | | $ 50,321 | | $ 42,464 | |

General Fund amounts do not include activity related to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

See accompanying note to supplementary information.

## 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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 Medi-Cal Billing Options funds have been recorded in the current period as revenues that have not been expended as of June 30, 2016. These unspent balances are reported as legally restricted ending balances within the General Fund. In addition, the Build America Bonds are excluded from the provisions of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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: | | $ 85,858,393 |
| Medi-Cal Billing Option | 93.778 | (545,269) |
| Build America Bonds | [1] | (1,332,035) |
| Total Schedule of Expenditures of Federal Awards | | $ 83,981,089 |

[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.

**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.

# *Independent Auditor's Reports*

**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, 2016, 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 2, 2016.

**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.



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**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 2, 2016.

**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.

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 2, 2016

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

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 (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Ana Unified School District's major Federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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.



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***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, 2016.

**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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 2, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



## 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 (the District) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Santa Ana Unified School District's State government programs as noted below for the year ended June 30, 2016.

***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 on After School Education and Safety Program and Unduplicated Local Control Funding Formula Pupil Counts***

As described in the accompanying schedule of findings and questioned costs, Santa Ana Unified School District did not comply with requirements regarding After School Education and Safety Program and Unduplicated Local Control Funding Formula Pupil Counts; refer to State Awards Findings and Questioned Costs, findings 2016-001 and 2016-002. Compliance with such requirements is necessary, in our opinion, for Santa Ana Unified School District to comply with the requirements applicable to that program.



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***Qualified Opinion on After School Education and Safety Program and Unduplicated Local Control Funding Formula Pupil Counts***

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, 2016.

***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, 2016, 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 Performed |
|---|---|
| LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS | |
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | Yes, see below |
| Instructional Time | Yes |
| Instructional Materials | Yes |
| Ratios of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | No, see below |
| Gann Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | No, see below |
| Middle or Early College High Schools | Yes |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS | |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program: | |
| General Requirements | Yes |
| After School | Yes |
| Before School | Yes |

| | Procedures Performed |
|---|---|
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control Accountability Plan | Yes |
| Independent Study - Course Based | No, see below |
| Immunizations | Yes, see below |
| CHARTER SCHOOLS | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Non Classroom-Based Instruction/Independent Study for Charter Schools | No, see below |
| Determination of Funding for Non Classroom-Based Instruction | No, see below |
| Annual Instruction Minutes Classroom-Based | Yes |
| Charter School Facility Grant Program | No, see below |

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The District does not have any Non Classroom-Based Instruction/Independent Study for Charter School; therefore, we did not perform any procedures for Non Classroom-Based Instruction/Independent Study for Charter School Programs.

The District does not have any Non Classroom-Based Instruction for Charter Schools; therefore, we did not perform any procedures related to the Determination of Funding for Non-Classroom-Based Instruction.

The District did not receive any funding for the Charter School Facility Grant Program; therefore, we did not perform any procedures related to the Charter School Facility Grant Program.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 2, 2016

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

## SANTA ANA UNIFIED SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS
## FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL STATEMENTS**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness identified? | No |
| Significant deficiency identified? | None reported |
| Noncompliance material to financial statements noted? | No |

**FEDERAL AWARDS**

| | |
|---|---|
| Internal control over major Federal programs: | |
| Material weakness identified? | No |
| Significant deficiency identified? | None reported |
| Type of auditor's report issued on compliance for major Federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? | No |

Identification of major Federal programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.367 | Title II, Part A - Improving Teacher Quality |
| 84.027, 84.027A, 84.173, 84.173A | Special Education (IDEA) Cluster |
| 93.600 | Head Start |
| 93.778 | Medi-Cal Assistance Program |
| 10.558 | Child and Adult Care Food Program |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 2,519,433 |
| Auditee qualified as low-risk auditee? | Yes |

**STATE AWARDS**

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

Unmodified for all programs except for the following programs which were qualified:

| Name of Program |
|---|
| After School Education and Safety Program |
| Unduplicated Local Control Funding Formula Pupil Counts |

# FINANCIAL STATEMENT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2016

None reported.

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2016

None reported.

# STATE AWARDS FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

| Five Digit Code | AB 3627 Finding Type |
|---|---|
| 40000 | State Compliance |

***After School Education and Safety Program***

**2016-001 40000**

**Criteria or Specific Requirements**

According to the *California Education Code* Section 8483(a)(1), every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program.

**Condition**

The District has gathered monthly summaries of student attendance for submission to the State in order to meet the semi-annual reporting requirement for the after school component of the program. However, in reviewing Adams Elementary School's, Monroe Elementary School's, and Willard Intermediate School's monthly summary total for the month of November 2015 and in comparing the total to the sites' attendance rosters, it was noted that the monthly summary totals differ significantly. Adams Elementary School's attendance rosters had a total of 1,467 students served whereas the total of the monthly summary were 1,543 students served, resulting in 76 exceptions. Exceptions consisted of 76 students who were released before 6PM on a daily basis, but had no early release form on file. Monroe Elementary School's attendance rosters had a total of 1,890 students served whereas the total of the monthly summary were 2,086 students served, resulting in 196 exceptions. Exceptions consisted of 196 students who were released before 6PM on a daily basis, but had no early release form on file. Willard Intermediate School's attendance rosters had a total of 1,040 students served whereas the total of the monthly summary were 1,382 students served, resulting in 342 exceptions. Exceptions consisted of 342 students who were released before 6PM on a daily basis, but had no early release form on file.

**Questioned Costs**

Under the provisions of the program, there are no questioned costs associated with this condition. However, for the sites tested for the after school component of the program, there were 614 students served during the month of November 2015 for which the attendance rosters did not conform to the District's early release policy.

**Context**

The condition identified resulted from our review of Adams Elementary School's, Monroe Elementary School's, and Willard Intermediate School's attendance records and monthly attendance summary totals for the month of November 2015. For the after school component of the program, the auditor selected 4 out of 45 schools for the first semi-annual reporting period dated July to December 2015. The auditor noted that for the month of November 2015, Adams Elementary School, Monroe Elementary School, and Willard Intermediate School did not consistently have early release forms for students that were being released before 6PM on a daily basis.

**Effect**

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2015-2016 fiscal year for Adams Elementary School, Monroe Elementary School, and Willard Intermediate School because the report submitted to the State reflects inaccurate student served information.

**Cause**

It appears that the condition identified, for the after school component of the program, has materialized as a result of the site utilizing the number of students attended for a particular day rather than recounting the rosters to ensure the sites deduct those students who are not in compliance with the established early release policy. The sites did not have an early release reason documented on the rosters for those students who were consistently released early from the ASES program.

**Recommendation**

The District should inform the sites regarding their early release policy including the importance of having an early release reason documented on the rosters for students who are continually released early. Also, prior to submission of attendance information to the State, the District should ensure the monthly summaries agree to the attendance summaries. An individual from the District should review and re-compute monthly attendance numbers per school site in order to verify that accurate information is being sent to the State for reporting.

**Corrective Action Plan**

Since November 2015, the District has adopted the following practices to ensure compliance of *California Education Code* Section 8483(a)(1):

- All Site Coordinators have been trained on detailed early release procedures
- Schools sites experiencing difficulty with parent compliance have distributed letters reminding parents of the early release policy
    - Prior to ASES Registration for 2016-2017, a media piece was released to all parents detailing the expectations for attendance and early student release
- Routine program visits are scheduled with program administrators to observe compliance of established attendance and early release procedures as well as provide technical assistance and coaching

- Site Coordinators are held responsible to ensure compliance of the early release policy, including progressive discipline and/or removal from the program
- Program administrators begun random attendance audits, reviewing accuracy and compliance of attendance and early release policies and procedures

***Unduplicated Local Control Funding Formula Pupil Counts***

**2016-002 40000**

**Criteria or Specific Requirements**

*California Education Code* Section 42238.02(b)(4) states that the school districts should revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

**Condition**

The Unduplicated Local Control Funding Formula Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported eligibility for a total of 818 students for Free or Reduced-Price Meals on CALPADS Form 1.18 – FRPM/English Learner/Foster Youth – Student List.

**Questioned Costs**

The District over claimed the total eligible pupils by 818, resulting in a decrease of approximately $1,149,000 in LCFF funding.

**Context**

The condition identified was determined through a selection of students from Form 1.18 based on the criteria as stated on the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, Part W. Unduplicated Local Control Funding Formula Pupil Counts, 1.a: "Select a representative sample, to achieve a high level of assurance, from the students indicated as only free or reduced priced meal eligible (FRPM) identified under the "NSLP Program" column (which means students are indicated as a "No" under the "Direct Certification" column, "No" under the "Homeless" column, "No" under "Foster" column, blank under the "Migrant Ed Program"."

The auditor inquired further with the District and determined that the District did not make changes to students' eligibility for those students whose status should have been updated from the prior year. The District extracted the eligibility status for fiscal year 2015-2016 and compared it to the status report on CALPADS Form 1.18. The comparison resulted in a decrease of 818 eligible pupils. The auditor obtained a copy of this list and confirmed that the exceptions noted in our original testing were in fact noted on the list as having a change in status, yet the change was not made. This list noted a total of 818 students whose status should have been changed in CALPADS.

**Effect**

The District does not appear to be in compliance with *Education Code* Section 42238.02(b)(4). In addition, the District appears to be over claiming the total FRPM eligible pupil by 818 for a decrease in funding of approximately $1,149,000. The schedule below shows the exceptions by site and District-wide:

| School Site | Enrollment Count | Certified Total Unduplicated Count | Adjustment Based on English Learner Designation | Adjusted Total Enrollment Count | Adjusted Total Unduplicated Pupil Count |
|---|---|---|---|---|---|
| Abraham Lincoln Elementary | 923 | 911 | (2) | 923 | 909 |
| Adams Elementary | 506 | 498 | (6) | 506 | 492 |
| Andrew Jackson Elementary | 992 | 975 | (3) | 992 | 972 |
| Carl Harvey Elementary | 440 | 426 | (3) | 440 | 423 |
| Century High | 1,883 | 1,842 | (16) | 1,883 | 1,826 |
| Cesar E. Chavez High | 281 | 276 | (1) | 281 | 275 |
| Community Day Intermediate and High | 32 | 31 | (1) | 32 | 30 |
| Diamond Elementary | 571 | 563 | (7) | 571 | 556 |
| Douglas MacArthur Fundamental Intermediate | 1,230 | 1,086 | (81) | 1,230 | 1,005 |
| Franklin Elementary | 440 | 430 | (2) | 440 | 428 |
| Frederick Remington Elementary | 340 | 330 | (1) | 340 | 329 |
| Fremont Elementary | 653 | 640 | (1) | 653 | 639 |
| Garfield Elementary | 772 | 760 | (1) | 772 | 759 |
| George Washington Carver Elementary | 647 | 632 | (2) | 647 | 630 |
| Gerald P. Carr Intermediate | 1,487 | 1,474 | (18) | 1,487 | 1,456 |
| Gonzalo Felicitas Mendez Fundamental Intermediate | 1,381 | 1,343 | (37) | 1,381 | 1,306 |
| Greenville Fundamental Elementary | 1,055 | 880 | (54) | 1,055 | 826 |
| Hector G. Godinez | 2,622 | 2,512 | (48) | 2,622 | 2,464 |
| Heroes Elementary | 625 | 618 | (3) | 625 | 615 |
| Hoover Elementary | 409 | 398 | (2) | 409 | 396 |
| Jefferson Elementary | 773 | 685 | (12) | 773 | 673 |
| Jim Thorpe Fundamental | 1,025 | 886 | (47) | 1,025 | 839 |
| John F. Kennedy Elementary | 794 | 783 | - | 794 | 783 |
| John Muir Fundamental Elementary | 1,037 | 855 | (42) | 1,037 | 813 |
| Jose Sepulveda Elementary | 460 | 449 | (6) | 460 | 443 |
| Julia C. Lathrop Intermediate | 966 | 961 | (6) | 966 | 955 |

| School Site | Enrollment Count | Certified Total Unduplicated Count | Adjustment Based on English Learner Designation | Adjusted Total Enrollment Count | Adjusted Total Unduplicated Pupil Count |
|---|---|---|---|---|---|
| Lorin Griset Academy | 376 | 358 | (5) | 376 | 353 |
| Lowell Elementary | 927 | 920 | (4) | 927 | 916 |
| Lydia Romero-Cruz Elementary | 283 | 280 | (3) | 283 | 277 |
| Madison Elementary | 1,098 | 1,082 | (1) | 1,098 | 1,081 |
| Manuel Esqueda Elementary | 1,211 | 1,184 | (7) | 1,211 | 1,177 |
| Martin Elementary | 730 | 714 | (5) | 730 | 709 |
| Martin Luther King Jr. Elementary | 754 | 746 | (4) | 754 | 742 |
| Martin R. Heninger Elementary | 1,198 | 1,178 | (14) | 1,198 | 1,164 |
| McFadden Intermediate | 1,328 | 1,281 | (24) | 1,328 | 1,257 |
| Middle College High | 336 | 320 | (15) | 336 | 305 |
| Monroe Elementary | 439 | 423 | (4) | 439 | 419 |
| Monte Vista Elementary | 648 | 642 | (1) | 648 | 641 |
| NPS School Group for Santa Ana Unified | 26 | 16 | - | 26 | 16 |
| Pio Pico Elementary | 620 | 614 | (1) | 620 | 613 |
| Raymond A. Villa Fundamental Intermediate | 1,350 | 1,330 | (21) | 1,350 | 1,309 |
| Saddleback High | 1,627 | 1,560 | (31) | 1,627 | 1,529 |
| Santa Ana High | 2,800 | 2,731 | (26) | 2,800 | 2,705 |
| Santiago Elementary | 1,220 | 1,000 | (43) | 1,220 | 957 |
| Segerstrom High | 2,433 | 2,175 | (121) | 2,433 | 2,054 |
| Sierra Preparatory Academy | 954 | 935 | (9) | 954 | 926 |
| Spurgeon Intermediate | 958 | 945 | (11) | 958 | 934 |
| Taft Elementary | 587 | 540 | (12) | 587 | 528 |
| Theodore Roosevelt Elementary | 694 | 688 | (4) | 694 | 684 |
| Thomas A. Edison Elementary | 587 | 576 | (3) | 587 | 573 |
| Valley High | 2,241 | 2,185 | (27) | 2,241 | 2,158 |
| Walker Elementary | 501 | 497 | (6) | 501 | 491 |
| Wallace R. Davis Elementary | 682 | 682 | (1) | 682 | 681 |
| Washington Elementary | 881 | 866 | (8) | 881 | 858 |
| Willard Intermediate | 831 | 829 | (4) | 831 | 825 |
| Wilson Elementary | 719 | 710 | (1) | 719 | 709 |
| District-Wide | 51,383 | 49,251 | (818) | 51,383 | 48,433 |

**Cause**

It appears that the condition identified has materialized as a result of the District not updating the status for students whose eligibility changed from the prior year.

**Recommendation**

The District should emphasize the importance of completing the Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received.

**Corrective Action Plan**

The District installed a new and separate Meals Plus database for the tracking required of student data from the Income Verification Forms. This will allow an export of required data from the Meals Plus database to the Aeries Student Information System. The Nutrition Services Department will verify the data prior to submission to the CDE.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2016

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*

**2015-001 50000**

**Federal Program Affected**

Title: Child Nutrition Cluster
CFDA: 10.553, 10.555, 10.559
Pass-Through Agency: California Department of Education
Federal Agency: U.S. Department of Agriculture

**Criteria or Specific Requirements**

Per Title 2, Code of Federal Regulations, Part 215, Subpart C, Section 215.34(f)(3), a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

**Condition**

During the 2014/2015 fiscal year, the District's Nutrition Services bought equipment but the recordkeeping of the equipment did not comply with Title 2, Part 215, Subpart C, Section 215.34(f)(3). The equipment was tagged by Nutrition Services, but was not added to the capital asset listing of the District.

**Questioned Costs**

There were no direct questioned costs associated with the condition identified.

**Context**

The condition was identified as a result of review of the District's financial records and supporting invoices for the equipment transactions.

**Effect**

The recordkeeping of equipment is a direct and material compliance requirement that the District must adhere to. The District is non-compliant with the requirements stated in Title 2, Code of Federal Regulations, Part 215, Subpart C, Section 215.34(f)(3).

**Cause**

The condition identified appears to have materialized due to breakdown of internal control over equipment related transactions.

**Recommendation**

The District should review the requirements stated in Title 2, Part 215, Subpart C, Section 215.34(f)(3) and establish proper internal control procedures over equipment related transactions and implement a plan to ensure all the equipment and any other capital asset purchased using federal funds is properly tagged and added to the district's capital assets listing.

**Current Status**

Implemented

**2015-002 50000**

**Federal Program Affected**

Title: Child Nutrition Cluster
CFDA: 10.553, 10.555, 10.559
Pass-Through Agency: California Department of Education
Federal Agency: U.S. Department of Agriculture

**Criteria or Specific Requirements**

Per Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2) requires the proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account to be equal or greater than the proportion of total food costs associated with obtaining nonprogram foods to the total costs associated with obtaining program and nonprogram foods from the account.

**Condition**

During 2013/2014 fiscal year, the District's cafeteria operation did not track nonprogram revenues and costs separately to ensure compliance with Title 7, Part 210, Subpart C, Section 210.14(f)(2).

**Questioned Costs**

There were no direct questioned costs associated with the condition identified.

**Context**

The condition was identified as a result of inquiry of the Nutrition Services department regarding tracking of nonprogram revenues and costs.

**Effect**

The revenue from nonprogram foods is a direct and material compliance requirement that the District must adhere to. The District is non-compliant with the requirements stated in Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2).

**Cause**

The condition identified appears to have materialized due to the District's lack of awareness of requirements under Title 7, Part 210, Subpart C, Section 210.14(f)(2).

**Recommendation**

The District should review the requirements stated in Title 7, Part 210, Subpart C, Section 210.14(f)(2) and implement a procedure to address the deficiency currently identified with the District's nonprogram revenue requirement. Specifically, we recommend the District incorporate procedures to track nonprogram revenues and costs separately to be able to perform the nonprogram revenue calculation in subsequent fiscal years.

**Current Status**

Implemented

***State Awards Findings***

**2015-003 40000**

**Criteria or Specific Requirements**

According to *California Education Code Section* 8483(a)(1), every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program.

According to *California Education Code Section* 8483.1(a)(1), every before school component of a program established pursuant to this article shall in no instance operate for less than one and one-half hours per regular school day.

**Condition**

The District has gathered monthly summaries of student attendance for submission to the State in order to meet the semi-annual reporting requirement for the after school component of the program. However, in reviewing Fremont Elementary School's monthly summary total for the month of December 2014 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals differ significantly. Fremont Elementary School's attendance rosters had a total of 1,935 students served whereas the total of the monthly summary was 2,086 students served, resulting in 151 exceptions. Exceptions consisted of 151 students who were released before 6PM on a daily basis but had no early release form on file. In addition, in reviewing Hoover Elementary School's monthly summary total for the month of December 2014 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals differ significantly. Hoover Elementary School's attendance rosters had a total of 1,808 students served whereas the total of the monthly summary was 1,843 students served, resulting in 35 exceptions. Lastly, in reviewing King Elementary School's monthly summary total for the month of December 2014 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals also differ significantly. King Elementary School's attendance rosters had a total of 1,187 students served whereas the total of the monthly summary was 1,020 students served, resulting in 167 exceptions. Exceptions consisted of 167 students who were not report for month of December 2014.

**Questioned Costs**

Under the provisions of the program, there are no questioned costs associated with this condition. However, for two of the sites tested for the after school component of the program, there were 186 students served during the month of December 2014 for which the attendance rosters did not confirm to the District's early release policy. In addition, for one of the sites tested for the before school component of the program, there were 167 student served during the month of December 2014 that were not reported on the semi-annual attendance report.

**Context**

The condition identified resulted from our review of Fremont Elementary School's, Hoover Elementary School's, and King Elementary School's attendance records and monthly attendance summary totals for the month of December 2014. For the after school component of the program, the auditor selected two of 45 schools for the first semi-annual reporting period dated July to December 2014. The auditor noted that for the month of December 2014, Fremont Elementary School and Hoover Elementary School did not have early release forms for students that were being released before 6PM on a daily basis. For the before school component of the program, the auditor selected one of three schools for the first semi-annual reporting period dated July to December 2014. The auditor noted that for the month of December 2014, King Elementary school did not accurately report the number of student served.

**Effect**

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2014-2015 fiscal year for Fremont Elementary School, Hoover Elementary School, and King Elementary School because the report submitted to the State reflects inaccurate attendance information.

**Cause**

It appears that the condition identified for the after school component of the program was a result of the sites utilizing the number of students attended for a particular day rather than recounting the rosters to ensure the sites deduct those students who are not in compliance with the established early release policy. The sites did not have early release reason documented on the rosters for those students who were consistently released early from the ASES program. In addition, it appears that the condition identified, for the before school component of the program, has materialized as a result of the site not accurately counting the number of students served based on the attendance rosters.

**Recommendation**

The District should inform the sites regarding their early release policy including the importance of having an early release reason documented on the rosters for students who are continually released early. Also, prior to submission of attendance information to the State, the District should ensure the monthly summaries agree to the attendance summaries. An individual from the District should review and re-compute monthly attendance numbers per school site in order to verify that accurate information is being sent to the State for reporting.

**Current Status**

Not implemented, see finding 2016-001.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2016

**Attendance Reporting and Middle or Early College High School**

**2015-004 10000 and 40000**

**Criteria or Specific Requirements**

According to *California Education Code* Section 46146.5(b), a day of attendance for a pupil enrolled in an early college high school or middle college high school, who is a special part-time student enrolled in a community college under Article 1 (commencing with Section 48800) of Chapter 5 of Part 27, and who will receive academic credit upon satisfactory completion of enrolled courses, is 180 minutes of attendance.

**Condition**

In our sample of 40 students selected from the Middle College High School, we noted 21 students who did not meet the minimum required 180 minutes of attendance per day. Upon further review by the District, it was determined that 147 of 329 students did not meet the minimum required minutes of attendance. This resulted in an estimated decrease of Average Daily Attendance (ADA) at P2 of 158.21 in grade span 9-12.

**Questioned Costs**

This compliance requirement does not have a questioned cost component. Since the District is a declining enrollment District, they are funded on prior year ADA. However, the noncompliance resulted in an estimated overstatement of ADA at P2 of 158.21 for grade span 9-12.

**Context**

The condition identified was determined through a sample selection of students from the Middle College High School. Based on the review of the sample, it was noted that 21 of 40 students did not meet the minimum required 180 minutes of attendance per day.

The auditor inquired further with the District and determined that the District did not schedule the students for a sufficient number of instructional minutes to meet the minimum required minutes. The District extracted student schedules from the student information system and computed the daily minutes for each student enrolled in Middle College High School. The District disallowed the days where a student did not meet the minimum required minutes, which resulted in total of 20,884 days of noncompliance for the entire school year. This resulted in an estimated decrease of 158.21 ADA (20,884 noncompliance days / 132 days (P2 divisor)) at P2. The auditor obtained a copy of this list and confirmed that the exceptions noted in our original testing were in fact noted on this list as students not meeting the minimum required minutes.

**Effect**

As a result of the conditions identified, the District was not compliant with California Education Code Section 46146.5(b) for the 2014-2015 fiscal year, resulting in an estimated decrease of 158.21 ADA at P2.

**Cause**

It appears that the condition identified has materialized as a result of the District not ensuring that each student is schedule for the 180 minimum required minutes per day.

**Recommendation**

The District should emphasize the importance of students needing to meet the minimum required minutes per day. The District should review students' schedules to ensure that each student is schedule for a minimum of 180 minutes per day and enrolled in college courses concurrently. In addition, the District should revisit the matter and determine the actual impact of noncompliance and revise its attendance reports accordingly.

**Current Status**

Implemented

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants



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 (the District) for the year ended June 30, 2016, 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 2, 2016, on the government-wide financial statements of the District.

## *GENERAL LEDGER SYSTEM*

### *Capital Asset Accounting*

<u>Observation</u>

The District currently does not have an adequate system in place to track and monitor capital asset activity. Currently, the District utilizes the capital assets module within Oracle, the District's general ledger system, to account for capital assets; however, the system is unable to provide useful output of data. The system is not able to generate reports with the updated activity to ensure that all assets are included for depreciation. In addition, construction in progress has not been reconciled to ensure completed projects are transferred to the appropriate classification to be depreciated.

<u>Recommendation</u>

The District should explore alternatives to the current capital asset system. Upon having an alternative solution in place, the District should establish and enforce formalized procedures related to monitoring capital assets activities. Such procedures should include monthly review and reconciliation of capital asset additions and input into capital asset system for depreciation; procedures for disposal of assets including timelines for when the inventory counts will be performed; and a process for the reconciling of physical inventory count information with the perpetual capital assets listing.

### *General Ledger Detail Reports*

<u>Observation</u>

The general ledger system is unable to generate detailed balance sheet reports that agree to the District's unaudited actuals. The system is capable of generating summary level reports that agree to the ending balances of the balance sheet accounts, however as noted is not able to generate detailed reports.



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Recommendation

The District should contact the software manufacture to troubleshoot the noted issue and develop a solution that provides for detailed reports of balance sheet items. Alternatively, the District may consider reviewing the capabilities of the current system to ensure it meets user needs.

***WORKERS' COMPENSATION ACTUARIAL STUDY***

Observation

While the District obtained an actual study for its self-insurance workers' compensation, the study was not obtained prior to the District year-end closing; therefore, the District was unable to make an adjustment to its claims liability related to workers' compensation as part of its year-end closing process. In addition, the actuarial study was dated for period ending July 31, 2016, rather than the fiscal year end of June 30, 2016.

Recommendation

The District should ensure it obtains the workers' compensation actuarial study in a timely basis. It is imperative that the District obtains the actuarial study prior to year-end closing to ensure appropriate adjustments to the claims liability are made.

***INTERNAL CONTROLS***

***Bank Account Reconciliations***

Observation

The Depository, Benefit, Medco, and Corvel bank reconciliations were not completed for the month of June 2016 as of the date of the audit. In addition, bank reconciliations are not always reviewed by an individual other than the preparer. The lack of performing the reconciliation and an independent review may prevent errors or omissions from being detected.

Recommendation

The District should consider implementing a procedure where a designated individual performs the reconciliation and an independent individual reviews the reconciliations. The independent review ensures the accuracy and completeness of the bank reconciliation as the reviewers may be able to identify errors or modifications that the preparer has made.

***Payroll Disbursements***

Observation

It was noted that substitute employees that are used for less than a full day are manually tracked on spreadsheets by school site staff, rather than tracking this activity on the substitute system the District has in place. At times, the site staff will reference an incorrect employee code, which is used by payroll to process pay. This may result in paying the incorrect substitute for services that they did not perform.

Recommendation

It is recommended that the District track this activity in their existing system and develop procedures related to the tracking of substitute employees. The automated system will ensure the accuracy of the data needed to generate payroll. In addition, should the District not wish to track partial day substitute employees into their existing system, the District should inform the school sites' staff the importance of ensuring the correct employee code is used to facilitate proper payment of services provided.

***Terminations, Retirement, Resignation, and Benefits Reconciliation***

Observation

It was noted that the District's procedures regarding resigned, retired, or terminated employees are not adhered to consistently. It was noted that for three of nine employees tested, the employees were released at the site level prior to being authorized by Human Resource Department. This resulted in individuals being overpaid. In addition, this could result in the District paying for benefits for employees who are no longer being employed by them.

Recommendation

It is recommended that the Human Resource Department advise site and department level administration regarding established policies regarding the releasing of resigned, retired, or terminated employees. This is essential to ensure that the District does not overpay individuals for services not rendered or overpay benefits for individuals no longer employed by the District.

***Instructional Time - Monitoring***

Observation

The District does not have a procedure in place to review the instructional time calculations completed by the school sites. One school site's kindergarten instructional time calculation stated the site was short on minutes. The calculation stated a total of 35,462 minutes, while the State minimum requirement for kindergarten is 36,000. Upon further review of the site's bell schedule and attendance calendar, it was noted that the site was in compliance with the required number of minutes.

Recommendation

In order to ensure that all sites meet the instructional minute requirements each year, the District should review the supporting documents for the calculation from each site and verify their completeness and accuracy. Changes to any site bell schedules should require recalculation and approval. Since noncompliance with instructional minutes could result in a critical loss of funding to the District, the personnel assigned the responsibility of monitoring the minutes should be knowledgeable of all the compliance requirements.

***System Reconciliation***

Observation

The District is currently reconciling the in-house financial system, Oracle, with the county system; however, the District does not investigate the variances between the two systems and simply makes adjustments to balance the systems.

Recommendation

The District should reconcile the two systems on a monthly basis and investigate the variances between the two systems. Any necessary adjustments for activity not accounted for should be made immediately so the correct amount is reported on the District's general ledger.

***ASSOCIATED STUDENT BODY (ASB)***

***Consolidated Associated Student Body Bank Reconciliation***

Observation

Per review of the ASB's bank account reconciliations, it was noted that the reconciliations prepared during the current year did not include the preparer's and reviewer's signatures; therefore, the auditor was unable to determine if the reconciliation were reviewed by a party other than the employee preparing the bank reconciliation.

Recommendation

Independent review of prepared bank reconciliation should always be performed by an administrator with accounting knowledge to ensure proper monitoring of the ASB's activities. Upon reviewing the reconciliation, the reviewer should sign and date the reconciliation to indicate it was reviewed. The review process will help identify any errors that may have otherwise gone unidentified.

***Consolidated Associated Student Body – Cash Accounts***

Observation

Per review of the ASB's financials, it was noted that closed bank accounts still appear on the financial statements as a line item with balances for 17 of 48 ASBs. This appears to have resulted due to the ASB not accounting for the closing of the account properly. Rather than transferring the funds from the old account to the new account, the ASB recorded the funds as revenue in the new account.

Recommendation

It is recommended that the District assist the ASBs to reconcile and clear out unused line items from the financial statements. The District should ensure that the balances that appear on the financial statement for the closed accounts represent the ending balances when the accounts were closed to ensure that the student body funds were not misappropriated.

***Douglas MacArthur Fundamental Intermediate School***

Observations

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

1. Cash collected by teachers, advisors, or clubs is not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Fourteen of 296 deposits tested did not have sufficient support or a paper trail; therefore, the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. Based on the review of the cash receipting procedures, it was noted that 280 of 296 receipts tested were not deposited in a timely manner. The delay in deposit ranged from approximately 11 to 64 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. Based on the review of the disbursement procedures, it was noted that two of six disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
4. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, three of six vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASBs.
5. Based on the review of the disbursement procedures, it was noted that one of six disbursements exceeded the pre-approved purchase order amount by $797. The purchase was approved for $1,400, but the actual amount paid for the purchase was $2,197. This appears to have been caused by the ASB approving a 'not to exceed' amount for the purchase, rather than approving a purchase based on a quote for items needed.
6. Based on the review of the fundraising procedures, it was noted that the school dances are not supported by revenue potential forms.
7. Based on the review of the fundraising procedures, it was noted that two of two revenue potential forms tested were not fully completed for the expected revenue and expenditures. In addition, one of two revenue potential forms was mathematically incorrect.
8. Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.
9. The balance sheet as of October 31, 2015, includes a bank balance line for a Bank of the West closed account.
10. During our review of the tested month's financial statements, it was noted that one trust account had a negative balance. The Drama Club trust account had a negative balance of $79.84.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.

2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are 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.
4. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
5. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are 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. In addition, the ASB should have a policy in place that would require any changes, over certain percentage of the preapproved amount, to be brought to the ASB for an approval prior to the purchase being made.
6. 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 form also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth.
7. Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential form, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained, and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
8. The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at the end of each close out. The starting point will be from a physical inventory count and, from there, any items sold should be deducted from the count, and any items purchased should be added to the count. This perpetual inventory count should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity and profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the ASB of the site. In addition, the inventory report should be compared to the corresponding time period sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.
9. The District should investigate as to why the ASB is reporting a balance on the balance sheet for a closed bank account. The balance sheet should only reflect balances of active accounts. Should the District determine this amount is reflected erroneously, it should have the ASB zero out the account on the balance sheet and close it.

10. The ASB has a fiduciary responsibility to all student body organizations to act in each group's best interest. By allowing certain clubs to spend in excess of their available reserves, the ASB is not meeting this responsibility to the other clubs and organizations. Clubs should not be allowed to spend in excess of their available cash. By allowing clubs to do so, they are in effect spending the resources of other clubs. The ASB should ensure that all clubs have sufficient funds available in their account prior to expenditures or transfers being made.

***Spurgeon Intermediate School***

Observations

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

1. Cash collected by teachers, advisors, or clubs is not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Eleven of 45 receipts tested did not have sufficient support or a paper trail; therefore, the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. Based on the review of the cash receipting procedures, it was noted that 30 of 45 deposits tested were not deposited in a timely manner. The delay in deposit ranged from approximately 11 to 29 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. Based on the review of the disbursement procedures, it was noted that four of six disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
4. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, three of six vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASBs.
5. Based on the review of the disbursement procedures, it was noted that one of six disbursements was overpaid. An individual was reimbursed $50 more than they should have been based on the invoice and supporting documents.
6. Based on the review of the fundraising procedures, it was noted that the school dances are not supported by revenue potential forms.
7. Based on the review of the fundraising procedures, it was noted that one of one fundraising events tested was not pre-approved by the ASB and/or the site administration.
8. Based on the review of the fundraising procedures, it was noted that one of one revenue potential forms tested was not fully completed for the expected revenue and expenditures.
9. Based on the review of ticketed events, it was noted that the site does not utilized pre-numbered tickets.
10. Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.
11. The balance sheet as of October 31, 2015, includes a bank balance line for a Bank of the West closed account.
12. During our review of the tested month's financial statements, it was noted that four trust accounts had negative balances totaling $10,691.75.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are 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.
4. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
5. In order to ensure proper internal controls over the ASB disbursements, the site should reconcile all invoices and supporting documents prior to paying a vendor or issuing reimbursement checks to ensure accuracy of payments. The ASB should request a reimbursement from this individual for the overpayment.
6. 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 from also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth.
7. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrators prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.
8. Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential form, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained, and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.

9. The ASB should utilized pre-numbered tickets to allow the ASB to compute revenues from each ticketed events. Along with pre-numbered tickets, the ASB should utilize a ticket sales recap form. A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll, the price per ticket and the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.
10. The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at the end of each close out. The starting point will be from a physical inventory count and, from there, any items sold should be deducted from the count, and any items purchased should be added to the count. This perpetual inventory count should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity and profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the ASB of the site. In addition, the inventory report should be compared to the corresponding time period sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.
11. The District should investigate as to why the ASB is reporting a balance on the balance sheet for a closed bank account. The balance sheet should only reflect balances of active accounts. Should the District determine this amount is reflected erroneously, it should have the ASB zero out the account on the balance sheet and close it.
12. The ASB has a fiduciary responsibility to all student body organizations to act in each group's best interest. By allowing certain clubs to spend in excess of their available reserves, the ASB is not meeting this responsibility to the other clubs and organizations. Clubs should not be allowed to spend in excess of their available cash. By allowing clubs to do so, they are in effect spending the resources of other clubs. The ASB should ensure that all clubs have sufficient funds available in their account prior to expenditures or transfers being made.

***Lorin Griset Academy***

<u>Observations</u>

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

1. Cash collected by teachers, advisors, or clubs is not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Three of three deposits tested did not have sufficient support or a paper trail; therefore the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. Based on the review of the cash receipting procedures, it was noted that three of three deposits tested were not deposited in a timely manner. The delay in deposit ranged from approximately 15 to 22 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. Based on the review of the disbursement procedures, it was noted that four of four disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.

4. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, one of four vendor invoices was paid without the direct knowledge of whether or not the goods being ordered have been received by the ASBs.
5. Based on the review of the fundraising procedures, it was noted that the school dances and holiday grams are not supported by revenue potential forms nor are they approved by the ASB or the site administration.
6. Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.

<u>Recommendations</u>

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are 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.
4. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
5. 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 form also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth. In addition, review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrators prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

6. The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at the end of each close out. The starting point will be from a physical inventory count and, from there, any items sold should be deducted from the count, and any items purchased should be added to the count. This perpetual inventory count should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity and profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the ASB of the site. In addition, the inventory report should be compared to the corresponding time period sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.

***Santa Ana High School***

<u>Observations</u>

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

1. Cash collected by fundraising activities is not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Three of three fundraising deposits tested did not have sufficient support or a paper trail; therefore, the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. Based on the review of the cash receipting procedures, it was noted that six of 17 deposits tested were not deposited in a timely manner. The delay in deposit ranged from approximately 17 to 21 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. The deposit counts are not conducted by two individuals simultaneously and without any video monitoring devices. The current form used does not have a spot on it for a second individual to sign indicating the count was done simultaneously by two individuals. Not having a second person present or a video monitoring system creates an opportunity for cash to be misappropriated.
4. Based on the review of the disbursement procedures, it was noted that seven of 18 disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
5. Revenue potential forms do not provide a section to include actual revenues and expenditures activity of a fundraiser. As a result, expected versus actual results cannot be measured to determine whether or not the fundraiser was successful or any losses have occurred.

<u>Recommendations</u>

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.

2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. It is recommended that the ASB revise their deposit count procedures to have two people perform the count together and both sign off on the cash count sheet or that a video monitoring system be utilized that is monitored frequently to deter misappropriation of cash.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are 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.
5. The ASB should revise their existing form to include a section for clubs to input the actual results of the fundraising activity and compute the difference between projected and actual. This will allow the ASBs to adequately monitor the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact.

***Segerstrom High School***

<u>Observations</u>

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

1. Cash collected by fundraising activities is not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Seven of nine fundraising deposits tested did not have sufficient support or a paper trail; therefore, the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.
2. Based on the review of the cash receipting procedures, it was noted that three of three deposits batches tested were not deposited in a timely manner. The delay in deposit ranged from approximately 17 to 30 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. The deposit counts are not conducted by two individuals simultaneously and without any video monitoring devices. The current form used does not have a spot on it for a second individual to sign indicating the count was done simultaneously by two individuals. Not having a second person present or a video monitoring system creates an opportunity for cash to be misappropriated.
4. Based on the review of the disbursement procedures, it was noted that five of 15 disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
5. Based on the review of the fundraising procedures, it was noted that two of nine fundraising events tested was not pre-approved by the ASB and/or the site administration.
6. Based on the review of the fundraising procedures, it was noted that the six of nine fundraising events were not supported by revenue potential forms.

Governing Board
Santa Ana Unified School District

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the student's name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. It is recommended that the ASB revise their deposit count procedures to have two people perform the count together and both sign off on the cash count sheet or that a video monitoring system be utilized that is monitored frequently to deter misappropriation of cash.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are 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.
5. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrators prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.
6. 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 form also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth.

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

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 2, 2016