



**SANTA ANA
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

SANTA ANA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Santa Ana Unified School District
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Ana Unified School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 *2016-2017 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.

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, 2017, 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 18, budgetary comparison schedule on page 82, schedule of other postemployment benefits funding progress on page 83, schedule of the District's proportionate share of net pension liability on page 84, and the schedule of District contributions on page 85, 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 (Uniform Guidance)* and the other supplementary information as listed in 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 other 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 13, 2017, 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 solely 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 the effectiveness of Santa Ana Unified School District's 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.

Vavriak, Irwin, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2017



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, 2017, with comparative information for the year ended June 30, 2016. 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.

BOARD OF EDUCATION

Valerie Amezcua, President • Rigo Rodriguez, Ph.D., Vice President
Alfonso Alvarez, Ed.D., Clerk • John Palacio, Member • Cecilia "Ceci" Iglesias, Member

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$353,597,760 for the fiscal year ended June 30, 2017, reflecting an increase of 14.7 percent since June 30, 2016. Of this amount, \$141,102,128 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 | |
|---|-------------------------|-----------------------|
| | 2017 | 2016 |
| Assets | | |
| Current and other assets | \$ 343,754,944 | \$ 320,926,603 |
| Capital assets | 1,026,766,213 | 1,014,882,485 |
| Total Assets | 1,370,521,157 | 1,335,809,088 |
| Deferred Outflows of Resources | 137,410,584 | 118,205,602 |
| Liabilities | | |
| Current liabilities, including current portion of long-term obligations | 71,005,086 | 82,195,796 |
| Long-term obligations | 480,394,864 | 495,612,955 |
| Aggregate net pension liability | 578,784,361 | 470,754,855 |
| Total Liabilities | 1,130,184,311 | 1,048,563,606 |
| Deferred Inflows of Resources | 24,149,670 | 97,130,041 |
| Net Position | | |
| Net investment in capital assets | 697,858,055 | 677,648,499 |
| Restricted | 141,102,128 | 126,264,888 |
| Unrestricted | (485,362,423) | (495,592,344) |
| Total Net Position | \$ 353,597,760 | \$ 308,321,043 |

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 \$(485,362,423) compared to \$(495,592,344).

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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 20. 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 | |
|--------------------------------------|-------------------------|----------------------|
| | 2017 | 2016 |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 2,834,549 | \$ 2,694,596 |
| Operating grants and contributions | 169,012,131 | 151,745,400 |
| Capital grants and contributions | 236,844 | 117,680 |
| General revenues: | | |
| Federal and State aid not restricted | 390,117,938 | 398,865,212 |
| Property taxes | 175,776,682 | 155,120,170 |
| Other general revenues | 35,729,250 | 52,121,851 |
| Total Revenues | 773,707,394 | 760,664,909 |
| Expenses | | |
| Instruction | 429,275,696 | 408,178,037 |
| Instruction-related | 78,041,419 | 70,157,337 |
| Pupil services | 86,450,833 | 80,949,628 |
| Administration | 46,624,264 | 49,754,567 |
| Plant services | 56,081,863 | 55,910,599 |
| Interest on long-term obligations | 19,830,059 | 21,543,431 |
| Other | 12,126,543 | 10,422,120 |
| Total Expenses | 728,430,677 | 696,915,719 |
| Change in Net Position | \$ 45,276,717 | \$ 63,749,190 |

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Governmental Activities

As reported in the *Statement of Activities* on page 20, the cost of all of our governmental activities this year was \$728,430,677. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$175,776,682 because the cost was paid by those who benefited from the programs \$(2,834,549) or by other governments and organizations who subsidized certain programs with grants and contributions \$(169,012,131). We paid for the remaining "public benefit" portion of our governmental activities with \$425,847,188 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 | |
|-----------------------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Instruction | \$ 429,275,696 | \$ 408,178,037 | \$ 336,925,375 | \$ 322,000,933 |
| Instruction-related | 78,041,419 | 70,157,337 | 62,301,563 | 56,901,501 |
| Pupil services | 86,450,833 | 80,949,628 | 35,729,793 | 35,664,732 |
| Administration | 46,624,264 | 49,754,567 | 41,622,686 | 44,680,850 |
| Plant services | 56,081,863 | 55,910,599 | 55,563,788 | 55,394,355 |
| Interest on long-term obligations | 19,830,059 | 21,543,431 | 19,830,059 | 21,543,431 |
| Other | 12,126,543 | 10,422,120 | 4,373,889 | 6,172,241 |
| Total | \$ 728,430,677 | \$ 696,915,719 | \$ 556,347,153 | \$ 542,358,043 |

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$242,764,265, which is an increase of \$31,969,195 from last year (Table 4).

Table 4

| | Balances and Activity | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | June 30, 2016 | Revenues | Expenditures | June 30, 2017 |
| General Fund | \$ 100,727,421 | \$ 667,120,599 | \$ 642,417,089 | \$ 125,430,931 |
| Special Reserve Fund for Capital Outlay Projects | 9,460,403 | 26,820,193 | 22,835,854 | 13,444,742 |
| Charter School Fund | - | 3,091,459 | 2,696,470 | 394,989 |
| Child Development Fund | 98,942 | 5,402,195 | 5,255,857 | 245,280 |
| Cafeteria Fund | 22,784,909 | 43,873,204 | 43,461,532 | 23,196,581 |
| Deferred Maintenance Fund | 718,660 | 4,019,396 | 2,419,465 | 2,318,591 |
| Building Fund | 4,195,875 | 36,052 | 145,004 | 4,086,923 |
| Capital Facilities Fund | 13,780,483 | 8,970,104 | 3,627,350 | 19,123,237 |
| County School Facilities Fund | 26,676,736 | 711,173 | 16,751 | 27,371,158 |
| Capital Projects Fund for Blended Component Units | 828,640 | 8,964 | 233,500 | 604,104 |
| Bond Interest and Redemption Fund | 21,223,061 | 21,258,463 | 19,939,278 | 22,542,246 |
| Debt Service Fund for Blended Component Units | 10,299,940 | 7,500,266 | 13,794,723 | 4,005,483 |
| Total | \$ 210,795,070 | \$ 788,812,068 | \$ 756,842,873 | \$ 242,764,265 |

The primary reasons for changes are:

- The General Fund showed an increase of \$24.7 million.
- The Capital Facilities Fund showed an increase of \$4 million.
- The Deferred Maintenance Fund showed an increase of \$1.8 million.
- The Capital Facilities Fund showed an increase of \$5.6 million.
- The Bond Interest and Redemption Fund showed an increase of \$1.3 million.
- The Debt Service Fund for Blended Component Units showed a decrease of \$6.3 million.

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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 27, 2017. (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 82.)

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, 2017, the District had \$1,026,766,213 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 \$11,883,728, or 1.2 percent, from last year (Table 5).

Table 5

| | Governmental Activities | |
|-----------------------------------|-------------------------|-------------------------|
| | 2017 | 2016 |
| Land and construction in progress | \$ 271,178,723 | \$ 238,778,347 |
| Buildings and improvements | 748,748,109 | 768,016,372 |
| Furniture and equipment | 6,839,381 | 8,087,766 |
| Total | \$ 1,026,766,213 | \$ 1,014,882,485 |

This year's additions of \$11.9 million (see Note 5) included several completed construction projects for modernization, new construction, and QZAB solar.

Several capital projects are planned for the 2017-2018 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Long-Term Obligations

At the end of this year, the District had \$490,394,864 in long-term obligations versus \$495,612,955 last year. The obligations consisted of:

Table 6

| | Governmental Activities | |
|---|-------------------------|-----------------------|
| | 2017 | 2016 |
| General obligation bonds - net (financed with property taxes) | \$ 330,638,040 | \$ 332,866,544 |
| Certificates of participation - net | 75,059,674 | 79,677,106 |
| Qualified zone academy bonds | 4,500,000 | 11,500,000 |
| Construction loan | 2,021,163 | - |
| Career Technical Education facilities program loan | 558,740 | 810,264 |
| Compensated absences | 2,946,847 | 1,427,201 |
| Claims liability | 12,885,320 | 13,713,796 |
| Other postemployment benefits | 51,785,080 | 55,618,044 |
| Total | \$ 480,394,864 | \$ 495,612,955 |

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 \$330.6 million 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 \$578,784,361, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017 ARE NOTED BELOW:

I3 Grant Proposal Awarded

- Proposition 47 Grant Submitted
- Suspension Rate Reduction (CDE Dashboard) Green
- Graduation Rate Increase (CDE Dashboard) Green
- Early College Enrollment Increase
- 4 Gold Ribbon Elementary Schools (Awarded)
- MCHS and MacArthur Intermediate School (Gold Ribbon Applications and Visits)
- CDE Model SARB Recognition Program Award – 2017

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- PBIS SILVER AWARDS 2016
 - Lincoln Elementary School
 - Franklin Elementary School
 - Fremont Elementary School
 - Heroes Elementary School
 - Kennedy Elementary School
 - Mendez Fundamental School
 - Pio Pico Elementary School
 - REACH Academy
 - Davis Elementary School
 - Wilson Elementary School
- REACH New WASC Accreditation
- Chavez WASC Accreditation
- Valley WASC Accreditation
- Truth2Power student engagement event
- Monthly arts collaboration w/ Santa Ana Artwalk, including Almas Soñadoras event with over 2300 student artists
- Creation of Speech & Debate tournament series - 22 students to nationals, programs at all intermediate schools and 2 elementary campuses
- Inaugural year at SanArts - master courses offerings in all five disciplines, addition of new courses and pathways in dance, music, theater, visual art, cinematic arts, etc.
- VAPA Feeder Pathways at Heninger ES
- Authorization of Saddleback HS as an IB World School
- Creation of 21st Century livestream programming (i.e. Santa Ana En Vivo, Science Kitchen, 21C Live Show, etc.)
- CTE - JPL Internships (For the 3rd year JPL will be hosting some of our highest performing students in STEM. This year JPL will host 7 students.)
- Santa Ana High Automotive program has been NATEF/ASE Certified
- Valley Automotive has qualified for nationals with the American Hotrodders Association
- Valley High School's Health Sciences and Medical Pathway, 11th grade student, Cindy Ho, placed 4th in the California Health Occupation Student Association (HOSA) "Individual Medical Spelling/Terminology Competition"
- Valley High School's Culinary Pathway students placed 2nd (out of 18 teams from across the state) ProStart Restaurant Management Competition that was held at the Fairplex in Pomona on March 20th
- Paso a Paso implementation, increase reading
- "Access for All" implementation completed - all students grades 3-12 access to a mobile device, including refresh of technology for Willard and Sierra (40,520 mobile devices in 3 years)
- "Wi-Fi for All" expanded through ConnectEd grant - 1000 additional hotspots for student checkout to expand student access to internet at home
- Recipient of Sprint 1 Million Project Grant, to expand Wi-Fi access to high school students at home – 4100 wireless access devices awarded
- Kaltura video hosting and editing program implemented to expand access to multimedia resources
- Expansion of student and staff use of Google Apps - over 2 million docs created, over 8 million file uploads
- OCCUE Technology Festival - over 500 teachers in attendance at Mendez

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- 2nd annual Digital Citizenship Academy for Parents - over 150 parents participating, monthly parent technology workshops
- Programming opportunities with Sphero in grades 3-5
- Willard and Sierra Turnaround Arts
- AVID Showcase at Thorpe (only showcase in Southern California)
- LIFEvest - Completion of one-week Summer Financial Literacy Institute by 60 8th grade students
- Makerspace at Roosevelt - Behr and Heart of America Partnership
- National History Day Competition - Students competed at state level
- Reading Academy Certification (197 teachers)
- CA Math Science Partnership with Cal State Fullerton and Science@OC for NGSS elementary teachers (80 teachers completed)
- District-Wide Coding Classes at all Intermediate Schools
- College capstones added to CTE Pathways
- Instituted Preschool Parent STEM Academy (30 parents)
- Promise Program Results:
 - Increase of 372 SAUSD students Registered at First Census
 - Increase of 428 SAUSD student Completed the semester
 - Increase of 37 percent (234 students) in the number of students enrolled in college level math course
 - Increase of 27.5 percent (126 students) in the number of students completing Math 100
 - Increase of 19.4 percent (49 students) in the number of successful completions
 - Increase of 63.4 percent (355 students) in the number of students enrolled in an English 100 course
 - Increase of 53.8 percent (247 students) in the number of students completing an English course
 - Increase of 38.4 percent (114 students) in the number of students successfully completing English
- NWEA MAP Write2Win competition
- Expansion of exemplary Inclusive Practices
- Implementation of an Online Interactive Curriculum
- Approval by California Department of Education on Special Education Performance Indicators
- Special Olympics Hosts
- Wheelchair Tennis for students
- Engage 360° staff received professional development on how to incorporate Footsteps 2 Brilliance in the after school program
- Engage 360° sites provided six (6) parent engagement opportunities (e.g. Family Literacy and STEM nights) with 6,706 parent participants (Increase of 3,102 more participants than 2015-2016)
- 99 percent of parents feel their children are safe in the Engage 360° program
- Winter Posada Event collaboration with ASSETS, Culinary Arts, Falcon Parents and Performing Arts Department (Valley)
- ASSETs at Santa Ana HS graduated a total of 65 parents for Phase 1 and 48 parents for Phase 2 of Disciplina Positiva
- Rosetta Stone English classes hosted by Valley ASSETs
- Segerstrom ASSETs had 65 parents participate in the Disciplina Positiva program
- Godinez ASSETs had over 100 parents attend the PIQU Parent Literacy Program

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- SHBS ASSETs had 35 parents graduated and completed the from NIU technology course. In an unprecedented move to push the maximum utilization of technology, NIU along with the support of its school district partners, simultaneously broadcasted the graduation of parents from the NIU Program in Santa Ana, Inglewood and Orange.
- The SBHS ASSETs Program was able to sponsor 45 students to attend an overnight campus college tour of four campuses during spring recess. Students attended Pepperdine University, CS Channel Islands, Cal Poly San Luis Obispo and UC Santa Barbara. 95 percent of the students who attended the educational field trip had never visited a college campus or had the opportunity to explore California's central coast.
- ASSETs SBHS hosted a one-day college tour for 50 students to UC San Diego
- ASSETs hosted spring break college field trips for approximately 125 students to UC Riverside, UC San Diego, UCLA, Cal Poly Pomona,
- Partnership with Higher Ed Coordinator helped 94 percent of seniors complete financial aid applications during College Late Nights
- In partnership with Saddleback HS Higher Education Center Coordinator, the SBHS ASSETs Program was able to award Monica Sanchez \$500 scholarship for her commitment and leadership to both the school and program. Monica will be attending UC Santa Barbara this fall.
- Engage 360° provided a 10-week RBI Baseball/Softball season for 21 intermediate teams with 233 students
- Engage 360° had 1,039 students access FEV online 1:1 tutoring for a total of 5,450 tutor hours
 - FEV Tutor participants achieved 98 percent of their growth goals in Math (7.10 out of 7.25 RIT growth points achieved) and 102 percent of their growth goals in Reading (7.45 out of 7.31).
 - Students who attended 20 – 30 online tutoring sessions over the course of the year demonstrating an average of +12 RIT point growth in Reading and +8 RIT point growth in Math from Fall to Spring.
- 94 percent of Engage 360° students looked forward to the enrichment services offered by the community providers (Toyama Karate, Active Learning, Discovery Cube, OCCTAC, Boys & Girls Club, Mariachi)
- Dia de los Muertos Event collaboration with ASSETS, Performing Arts departments, Foreign Language Department and Culinary Arts Academy (Valley)
- SAHS ASSETs & Heninger Engage 360° Partnership- Halos Student Leaders walk over to Heninger Elementary to work with underclassmen to provide tutoring services and serve as mentors to future Saints.
- ASSETs Segerstrom Held the Guest Service Gold workshops for students to help prepare them for a career in customer service, with 28 students certified as Guest Service Professionals.
- Godinez ASSETs started an edible garden with OCDE partnership
- Athletic Tutorials:
 - SHBS ASSETs was able to service the following sports and teams to maintain student athletes 2.00 GPA eligibility year round: Boys JV/V Baseball, JV/V Football, Girls and Boys Varsity Volleyball, Cheer, Dance, JV Softball and JV/V Boys Basketball
 - Segerstrom ASSETs launched the Athletic Tutorial program to serve student athletes with academic support. Served about 35 students a week from Boys Basketball, Boys Soccer, Girls Lacrosse, Girls Soccer and Baseball.

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- The ASSETs program had 231 students complete the Workforce Readiness Education Program (WREP), including 7 workshops to develop employability skills and increase their ability to access internship opportunities – collaborative efforts between CTE, Extended Learning/ASSETs and THINK Together.
- All Elementary Engage 360° students participated in the Stop & Think program (social skill development).
- All Intermediate Engage 360° staff were training in restorative practices
- Students who attended the ASSETs program at least 60 days or more demonstrated the following results on the SEL Climate survey:
 - How carefully did you listen to others people's point of view? - After School Program (ASP) 73 percent compared to School 69 percent = > 4 percent
 - How often did you compliment others accomplishment? - ASP 63 percent compared to School 55 percent = > 8 percent
 - How clearly were you able to describe your feelings? - ASP 47 percent compared to School 37 percent = > 10 percent
 - When others disagreed with you, how respectful were you of their views? - ASP 72 percent compared to School 65 percent = > 7 percent
 - To what extent were you able to disagree with others without starting an argument? - ASP 53 percent compared to School 47 percent = > 6 percent
- 93 percent of students feel safe in the Engage 360° program.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2017-2018 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 2017-2018 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 -1300
3. Projected funded ADA of 48,552.74 to calculate LCFF funding
4. LCFF Gap funding of 43.97 percent
5. Statutory COLA of 1.56 percent
6. Unduplicated count of 93.80 percent
7. LCFF Transfers to Deferred Maintenance Fund
8. Increased contribution to Ongoing and Major Maintenance Account
9. Removal of One-time Funds for Outstanding Mandate Claims
10. Mandated Block Grant

SANTA ANA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Expenditures were based on the following:

1. Staffing reductions for certificated, classified, and management due to the expected increase in ongoing district costs as well as declining enrollment to maintain fiscal solvency
2. Increased costs for STRS/PERS rates; Health and Welfare
3. Increased Special Education costs
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 transfers to Health Benefits Authority (HBA), Debt Service Fund, Charter Schools Special Revenue Fund, Special Reserve Fund for Capital Outlay Projects, Special Reserve Fund for Postemployment Benefits, and Self-Insurance Fund

Staffing ratios:

| | <u>Staffing Ratio</u> | <u>Enrollment</u> |
|----------------------------|---------------------------|-------------------|
| Transitional Kindergarten | 29:1 | 861 |
| Kindergarten | 29:1 | 3,208 |
| Grade one | 29:1 | 3,542 |
| Grade two | 29:1 | 3,441 |
| Grade three | 29:1 | 3,468 |
| Grades four through five | 29:1 | 7,872 |
| Grades six through eight | 35:1 | 11,533 |
| Grades nine through twelve | 36:1 | 14,170 |

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 Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California, 92701-6322.

SANTA ANA UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2017**

| | Governmental Activities |
|---|-------------------------------------|
| ASSETS | |
| Deposits and investments | \$ 303,072,589 |
| Restricted assets, investments | |
| Receivables | 39,044,787 |
| Prepaid expenses | 237,186 |
| Stores inventories | 1,400,382 |
| Capital Assets | |
| Land and construction in process | 271,178,723 |
| Other capital assets | 975,452,954 |
| Less: accumulated depreciation | (219,865,464) |
| Total Capital Assets | <u>1,026,766,213</u> |
| Total Assets | <u>1,370,521,157</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred charge on refunding | 474,521 |
| Deferred outflows of resources related to pensions | 136,936,063 |
| Total Deferred Outflows of Resources | <u>137,410,584</u> |
| LIABILITIES | |
| Accounts payable | 48,409,631 |
| Accrued interest payable | 3,984,526 |
| Unearned revenue | 18,610,929 |
| Long-Term Obligations: | |
| Current portion of long-term obligations other than pensions | 18,468,245 |
| Noncurrent portion of long-term obligations other than pensions | 461,926,619 |
| Total Long-Term Obligations | <u>480,394,864</u> |
| Aggregate net pension liability | <u>578,784,361</u> |
| Total Liabilities | <u>1,130,184,311</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources related to pensions | <u>24,149,670</u> |
| NET POSITION | |
| Net investment in capital assets | 697,858,055 |
| Restricted for: | |
| Debt service | 22,563,203 |
| Capital projects | 51,755,113 |
| Educational programs | 23,038,264 |
| Other activities | 43,745,548 |
| Unrestricted | (485,362,423) |
| Total Net Position | <u><u>\$ 353,597,760</u></u> |

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, 2017**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|---|-----------------------|--------------------------------------|--|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction | \$ 429,275,696 | \$ 858,941 | \$ 91,254,536 | \$ 236,844 | \$ (336,925,375) |
| Instruction-related activities: | | | | | |
| Supervision of instruction | 32,475,504 | 54,517 | 12,775,616 | - | (19,645,371) |
| Instructional library, media, and technology | 4,529,583 | 498 | 209,659 | - | (4,319,426) |
| School site administration | 41,036,332 | 11,470 | 2,688,096 | - | (38,336,766) |
| Pupil services: | | | | | |
| Home-to-school transportation | 12,603,350 | - | - | - | (12,603,350) |
| Food services | 41,138,575 | 1,148,222 | 39,275,522 | - | (714,831) |
| All other pupil services | 32,708,908 | 77,585 | 10,219,711 | - | (22,411,612) |
| Administration: | | | | | |
| Data processing | 6,289,234 | 5,949 | 46,164 | - | (6,237,121) |
| All other administration | 40,335,030 | 58,534 | 4,890,931 | - | (35,385,565) |
| Plant services | 56,081,863 | 8,553 | 509,522 | - | (55,563,788) |
| Ancillary services | 6,495,915 | 1,780 | 105,222 | - | (6,388,913) |
| Community services | 139,592 | 118 | 911 | - | (138,563) |
| Enterprise services | 265,240 | 7,316 | 223,571 | - | (34,353) |
| Interest on long-term obligations | 19,830,059 | - | - | - | (19,830,059) |
| Other outgo | 5,225,796 | 601,066 | 6,812,670 | - | 2,187,940 |
| Total Governmental Activities | \$ 728,430,677 | \$ 2,834,549 | \$ 169,012,131 | \$ 236,844 | (556,347,153) |
| General revenues and subventions: | | | | | |
| | | | | | 150,999,091 |
| | | | | | 19,795,370 |
| | | | | | 4,982,221 |
| | | | | | 390,117,938 |
| | | | | | 1,628,459 |
| | | | | | 34,100,791 |
| | | | | | 601,623,870 |
| | | | | | 45,276,717 |
| | | | | | 308,321,043 |
| | | | | | \$ 353,597,760 |

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

SANTA ANA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

| | <u>General Fund</u> | <u>Special Reserve Fund for Capital Outlay Projects</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|---|---|
| ASSETS | | | | |
| Deposits and investments | \$ 147,488,382 | \$ 21,364,909 | \$ 101,790,478 | \$ 270,643,769 |
| Receivables | 27,437,890 | 1,084,611 | 9,706,264 | 38,228,765 |
| Due from other funds | 12,976,877 | 6,782,141 | 3,262,989 | 23,022,007 |
| Prepaid expenditures | 87,678 | - | 759 | 88,437 |
| Stores inventories | 870,680 | - | 529,702 | 1,400,382 |
| Total Assets | <u>\$ 188,861,507</u> | <u>\$ 29,231,661</u> | <u>\$ 115,290,192</u> | <u>\$ 333,383,360</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 37,500,874 | \$ 3,657,303 | \$ 6,239,924 | \$ 47,398,101 |
| Due to other funds | 19,779,648 | 3,107 | 4,827,310 | 24,610,065 |
| Unearned revenue | 6,150,054 | 12,126,509 | 334,366 | 18,610,929 |
| Total Liabilities | <u>63,430,576</u> | <u>15,786,919</u> | <u>11,401,600</u> | <u>90,619,095</u> |
| Fund Balances: | | | | |
| Nonspendable | 1,108,358 | - | 535,832 | 1,644,190 |
| Restricted | 22,397,995 | 5,260,718 | 101,034,169 | 128,692,882 |
| Committed | 25,445,159 | - | 2,318,591 | 27,763,750 |
| Assigned | 63,547,771 | 8,184,024 | - | 71,731,795 |
| Unassigned | 12,931,648 | - | - | 12,931,648 |
| Total Fund Balances | <u>125,430,931</u> | <u>13,444,742</u> | <u>103,888,592</u> | <u>242,764,265</u> |
| Total Liabilities and Fund Balances | <u>\$ 188,861,507</u> | <u>\$ 29,231,661</u> | <u>\$ 115,290,192</u> | <u>\$ 333,383,360</u> |

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, 2017**

| | |
|--|-----------------------|
| Total Fund Balance - Governmental Funds | \$ 242,764,265 |
| 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 | \$ 1,246,631,677 |
| Accumulated depreciation is | <u>(219,865,464)</u> |
| Net Capital Assets | 1,026,766,213 |
| 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. | |
| | (3,984,526) |
| 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. | |
| | 21,084,799 |
| 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. | |
| | 474,521 |
| Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of: | |
| Pension contributions subsequent to measurement date | 47,326,298 |
| Net change in proportionate share of net pension liability | 25,191,625 |
| Difference between projected and actual earnings on pension plan investments | 57,998,915 |
| Differences between expected and actual experience in the measurement of the total pension liability | <u>6,419,225</u> |
| Total Deferred Outflows of Resources Related to Pensions | 136,936,063 |

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, (CONTINUED)
JUNE 30, 2017**

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

| | | |
|--|----------------|-----------------|
| Net change in proportionate share of net pension liability | \$ (9,025,669) | |
| Differences between expected and actual experience in the measurement of the total pension liability | (10,458,459) | |
| Changes in assumptions | (4,665,542) | |
| | | |
| Total Deferred Inflows of Resources Related to Pensions | | \$ (24,149,670) |

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (578,784,361)

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 | 263,826,881 |
| Premium on issuance of bonds | 7,595,223 |
| Certificates of participation | 55,062,230 |
| Premium on issuance of certificates | 1,068,209 |
| Qualified zone academy bonds | 4,500,000 |
| Compensated absences (vacations) | 2,946,847 |
| Construction loan | 2,021,163 |
| Career Technical Education facilities program loan | 558,740 |
| Net OPEB obligation | 51,785,080 |

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:

| | | |
|---|------------|-----------------------|
| | 78,145,171 | |
| Total Long-Term Obligations | | (467,509,544) |
| Total Net Position - Governmental Activities | | \$ 353,597,760 |

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, 2017**

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Funds |
|--|-------------------------|---|---|---|
| REVENUES | | | | |
| Local Control Funding Formula | \$ 514,118,944 | \$ - | \$ 6,110,988 | \$ 520,229,932 |
| Federal sources | 48,653,269 | - | 39,663,769 | 88,317,038 |
| Other State sources | 91,959,911 | 14,307,527 | 8,154,318 | 114,421,756 |
| Other local sources | 12,388,475 | 2,806,397 | 33,582,205 | 48,777,077 |
| Total Revenues | 667,120,599 | 17,113,924 | 87,511,280 | 771,745,803 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 398,546,112 | - | 5,906,246 | 404,452,358 |
| Instruction-related activities: | | | | |
| Supervision of instruction | 30,198,489 | - | 490,960 | 30,689,449 |
| Instructional library, media, and technology | 4,392,830 | - | - | 4,392,830 |
| School site administration | 39,232,491 | - | 649,039 | 39,881,530 |
| Pupil services: | | | | |
| Home-to-school transportation | 12,586,233 | - | - | 12,586,233 |
| Food services | 1,230,230 | - | 40,804,155 | 42,034,385 |
| All other pupil services | 31,327,504 | - | 362,004 | 31,689,508 |
| Administration: | | | | |
| Data processing | 6,618,015 | - | - | 6,618,015 |
| All other administration | 36,301,364 | - | 2,492,797 | 38,794,161 |
| Plant services | 50,330,569 | 18,764 | 3,316,449 | 53,665,782 |
| Facility acquisition and construction | 3,993,861 | 21,378,212 | 3,600,827 | 28,972,900 |
| Ancillary services | 6,519,481 | - | - | 6,519,481 |
| Community services | 135,806 | - | - | 135,806 |
| Other outgo | 5,225,796 | - | - | 5,225,796 |
| Enterprise services | 7,516 | - | 226,441 | 233,957 |
| Debt service | | | | |
| Principal | 251,524 | - | 23,440,000 | 23,691,524 |
| Interest and other | 5,613 | - | 10,300,473 | 10,306,086 |
| Total Expenditures | 626,903,434 | 21,396,976 | 91,589,391 | 739,889,801 |
| Excess (Deficiency) of Revenues Over Expenditures | 40,217,165 | (4,283,052) | (4,078,111) | 31,856,002 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | 7,685,106 | 7,359,996 | 15,045,102 |
| Other sources - proceeds from construction loan | - | 2,021,163 | - | 2,021,163 |
| Transfers out | (15,513,655) | (1,438,878) | (539) | (16,953,072) |
| Net Financing Sources (Uses) | (15,513,655) | 8,267,391 | 7,359,457 | 113,193 |
| NET CHANGE IN FUND BALANCES | 24,703,510 | 3,984,339 | 3,281,346 | 31,969,195 |
| Fund Balances - Beginning | 100,727,421 | 9,460,403 | 100,607,246 | 210,795,070 |
| Fund Balances - Ending | \$ 125,430,931 | \$ 13,444,742 | \$ 103,888,592 | \$ 242,764,265 |

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, 2017

Total Net Change in Fund Balances - Governmental Funds **\$ 31,969,195**

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 exceed depreciation in the period.

| | | |
|------------------------|---------------|------------|
| Capital outlays | \$ 32,400,376 | |
| Depreciation expense | (20,516,648) | |
| Net Expense Adjustment | | 11,883,728 |

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 more than the amounts paid by \$1,519,646.

(1,519,646)

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.

(15,807,651)

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:

3,832,964

Proceeds received from construction loan is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

(2,021,163)

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

SANTA ANA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2017

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 | \$ 497,508 | |
| Amortization of deferred charge on refunding | <u>(36,502)</u> | \$ 461,006 |

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 | 10,175,000 |
| Certificates of participation | 6,265,000 |
| Qualified zone academy bonds | 7,000,000 |
| 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 \$106,593, and second, \$10,091,572 of additional interest was accreted on the District's capital appreciation general obligation bonds and certificates of participation.

(9,984,979)

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.

2,771,739

Change in Net Position of Governmental Activities

\$ 45,276,717

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

SANTA ANA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2017

| | Governmental Activities - Internal Service Fund |
|---|--|
| ASSETS | |
| Current Assets | |
| Deposits and investments | \$ 32,428,820 |
| Receivables | 816,022 |
| Due from other funds | 10,098,194 |
| Prepaid expenses | 148,749 |
| Total Current Assets | <u>43,491,785</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable | 1,011,530 |
| Due to other funds | 8,510,136 |
| Current portion of long-term obligations | 2,811,721 |
| Total Current Liabilities | <u>12,333,387</u> |
| Noncurrent Liabilities | |
| Noncurrent portion of long-term obligations | <u>10,073,599</u> |
| NET POSITION | |
| Restricted | 21,084,799 |
| Total Net Position | <u>\$ 21,084,799</u> |

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, 2017

| | Governmental Activities - Internal Service Fund |
|---------------------------------------|--|
| OPERATING REVENUES | |
| Local and intermediate sources | \$ 17,016,179 |
| OPERATING EXPENSES | |
| Payroll costs | 10,881,222 |
| Supplies and materials | 408,983 |
| Facility rental | 17,141 |
| Other operating cost | 5,140,461 |
| Total Operating Expenses | <u>16,447,807</u> |
| Operating Income | <u>568,372</u> |
| NONOPERATING REVENUES | |
| Interest income | 295,397 |
| Transfers in | 1,907,970 |
| Total Nonoperating Revenues | <u>2,203,367</u> |
| Change in Net Position | 2,771,739 |
| Total Net Position - Beginning | <u>18,313,060</u> |
| Total Net Position - Ending | <u>\$ 21,084,799</u> |

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, 2017

| | Governmental Activities - Internal Service Fund |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash receipts from customers | \$ 14,052,526 |
| Other operating cash receipts | 104,666 |
| Cash payments to other suppliers of goods or services | (251,274) |
| Cash payments to employees for services | (6,906,706) |
| Other operating cash payments | (5,968,937) |
| Net Cash Provided by Operating Activities | <u>1,030,275</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfer from other funds | <u>1,907,970</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments | <u>295,397</u> |
| Net increase in cash and cash equivalents | 3,233,642 |
| Cash and cash equivalents - Beginning | 29,195,178 |
| Cash and cash equivalents - Ending | <u>\$ 32,428,820</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating income | \$ 568,372 |
| Changes in assets and liabilities: | |
| Receivables | 782,136 |
| Due from other funds | (3,641,123) |
| Prepaid expenditures | (148,749) |
| Accounts payable | 323,599 |
| Due to other fund | 3,974,516 |
| Claims liability | (828,476) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 1,030,275</u></u> |

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

SANTA ANA UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

| | <u>Agency Funds</u> |
|--------------------------|-------------------------|
| ASSETS | |
| Deposits and investments | \$ 2,957,571 |
| LIABILITIES | |
| Due to student groups | \$ 1,569,736 |
| Due to bondholders | 1,387,835 |
| Total Liabilities | <u>\$ 2,957,571</u> |

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

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

As a result, the General Fund reflects an increase in fund balance of \$23,855,909.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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).

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Investments

Investments held at June 30, 2017, 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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

Stabilization Arrangement

In fiscal year 2010-2011, the governing board adopted a resolution for stabilization arrangements. Under the resolution, a portion of the fund balance of the General Fund is committed for stabilization arrangements, such as might be needed in emergency situations or when revenue shortages or budgetary imbalances occur. The resolution states that, at fiscal year-end, an amount approximately equal to, but not less than, seven percent of the annual operating expenditures of the General Fund is to be committed for use in covering catastrophic losses, including natural and man-made disasters, insurance loss reserves, and limited operating expenses in a period of severe economic uncertainty. At June 30, 2017, \$24,445,159 of the fund balance for the General Fund is reported as committed for economic stabilization. The resolution recognizes that under extreme conditions, the use of resources may result in the committed fund balance amount dropping below the established threshold. Such amounts are required to be reinstated by the end of the subsequent fiscal year.

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 \$141,102,128 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017, 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.

New Accounting Pronouncements

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.

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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 November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

| | |
|--------------------------------|-----------------------|
| Governmental activities | \$ 303,072,589 |
| Fiduciary funds | 2,957,571 |
| Total Deposits and Investments | <u>\$ 306,030,160</u> |

Deposits and investments as of June 30, 2017, consist of the following:

| | |
|--------------------------------|-----------------------|
| Cash on hand and in banks | \$ 4,855,185 |
| Cash in revolving | 706,130 |
| Investments | 300,468,845 |
| Total Deposits and Investments | <u>\$ 306,030,160</u> |

Policies and Practices

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Authorized Under Debt Agreements

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 | \$ 295,909,331 | 325 days |
| Dreyfus Institutional Treasury & Agency Cash Advantage Fund | 663,263 | 21 days |
| BNP Paribas Fortis New | 3,896,251 | 10/27/17 |
| Total | \$ 300,468,845 | |

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, 2017. The investment in Dreyfus Institutional Treasury & Agency Cash Advantage Fund has been rated AAAM by Standard and Poor's rating service as of June 30, 2017. The investments in BNP Paribas Fortis New has been rated A-1 by Standard and Poor's rating service as of June 30, 2017.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the District's bank balance of \$4,146,724 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 BNP Paribas Fortis New of \$3,896,251, the District has a custodial credit risk exposure of \$3,896,251 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.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017:

| Investment Type | Reported Amount | Fair Value Measurements Using | |
|--|-----------------------|-------------------------------------|-----------------------|
| | | Level 2 Inputs | Uncategorized |
| Orange County Treasury Investment Pool | \$ 295,909,331 | \$ - | \$ 295,909,331 |
| Dreyfus Institutional Treasury & Agency Cash Advantage Fund | 663,263 | 663,263 | - |
| BNP Paribas Fortis New | 3,896,251 | 3,896,251 | - |
| Total | \$ 300,468,845 | \$ 4,559,514 | \$ 295,909,331 |

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, 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 |
|----------------------------------|----------------------|--|------------------------------------|-----------------------------|-------------------------------------|
| Federal Government | | | | | |
| Categorical aid | \$ 9,165,556 | \$ - | \$ 7,062,641 | \$ - | \$ 16,228,197 |
| State Government | | | | | |
| Categorical aid | 4,290,669 | - | 1,153,900 | - | 5,444,569 |
| Lottery | 4,298,425 | - | 9,239 | - | 4,307,664 |
| Local Government | | | | | |
| Interest | 87,260 | 19,374 | 65,806 | 30,062 | 202,502 |
| Regional occupational program | 385,053 | - | - | - | 385,053 |
| City of Santa Ana | - | - | 1,376,230 | - | 1,376,230 |
| Other LEA | 958,200 | - | - | - | 958,200 |
| Other Local Sources | 8,252,727 | 1,065,237 | 38,448 | 785,960 | 10,142,372 |
| Total | \$ 27,437,890 | \$ 1,084,611 | \$ 9,706,264 | \$ 816,022 | \$ 39,044,787 |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

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

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 |
|---|-------------------------|----------------------|-------------|--------------------------|
| Governmental Activities | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 136,172,405 | \$ - | \$ - | \$ 136,172,405 |
| Construction in progress | 102,605,942 | 32,400,376 | - | 135,006,318 |
| Total Capital Assets Not Being Depreciated | <u>238,778,347</u> | <u>32,400,376</u> | <u>-</u> | <u>271,178,723</u> |
| 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 | <u>975,452,954</u> | <u>-</u> | <u>-</u> | <u>975,452,954</u> |
| Total Capital Assets | <u>1,214,231,301</u> | <u>32,400,376</u> | <u>-</u> | <u>1,246,631,677</u> |
| Less Accumulated Depreciation: | | | | |
| Land improvements | 18,727,613 | 877,875 | - | 19,605,488 |
| Buildings and improvements | 174,599,759 | 18,390,388 | - | 192,990,147 |
| Furniture and equipment | 6,021,444 | 1,248,385 | - | 7,269,829 |
| Total Accumulated Depreciation | <u>199,348,816</u> | <u>20,516,648</u> | <u>-</u> | <u>219,865,464</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 1,014,882,485</u> | <u>\$ 11,883,728</u> | <u>\$ -</u> | <u>\$ 1,026,766,213</u> |

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

| | |
|---|----------------------|
| Governmental Activities | |
| Instruction | \$ 14,854,053 |
| Supervision of instruction | 984,799 |
| All other pupil services | 1,128,416 |
| All other administration | 1,415,649 |
| Plant services | 2,133,731 |
| Total Depreciation Expenses Governmental Activities | <u>\$ 20,516,648</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017, between major and non-major governmental funds, and the internal service fund are as follows:

| Due To | Due From | | | | Total |
|--|----------------------|--|------------------------------|-----------------------|----------------------|
| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Internal Service Fund | |
| General Fund | \$ - | \$ 1,699 | \$ 4,465,244 | \$ 8,509,934 | \$ 12,976,877 |
| Special Reserve Fund for Capital Outlay Projects | 6,782,141 | - | - | - | 6,782,141 |
| Non-Major Governmental Funds | 3,262,787 | - | - | 202 | 3,262,989 |
| Internal Service Fund | 9,734,720 | 1,408 | 362,066 | - | 10,098,194 |
| Total | <u>\$ 19,779,648</u> | <u>\$ 3,107</u> | <u>\$ 4,827,310</u> | <u>\$ 8,510,136</u> | <u>\$ 33,120,201</u> |

A balance of \$752,483 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from the reimbursement of operating costs.

A balance of \$1,074,517 due to the General Fund from the Charter School Non-Major Governmental Fund resulted from the reimbursement of operating costs.

A balance of \$2,140,091 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of operating costs.

A balance of \$9,754 due to the General Fund from the Deferred Maintenance Non-Major Governmental Fund resulted from reimbursement of deferred maintenance projects.

The balance of \$8,509,934 due to the General Fund from the Internal Service Fund resulted from reimbursement of excess contributions and a temporary loan.

A balance of \$466,649 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from allocation of in-lieu property taxes.

A balance of \$169,069 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 \$1,490,700 due to the Capital Facilities Non-Major Governmental Fund from the General Fund resulted from transfer to community redevelopment funds.

A balance of \$1,193,757 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from energy savings attributed to the solar project.

The balance of \$9,734,720 due to the Internal Service Fund from the General Fund resulted from insurance premiums.

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

| Transfer To | Transfer From | | | Total |
|--|----------------------|--|-----------------------------|----------------------|
| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Fund | |
| Special Reserve Fund for Capital Outlay Projects | \$ 7,685,106 | \$ - | \$ - | \$ 7,685,106 |
| Non-Major Governmental Funds | 5,920,579 | 1,438,878 | 539 | 7,359,996 |
| Internal Service Funds | 1,907,970 | - | - | 1,907,970 |
| Total | \$ 15,513,655 | \$ 1,438,878 | \$ 539 | \$ 16,953,072 |

| | |
|--|----------------------|
| The General Fund transferred to the Charter School Non-Major Governmental Fund for charter school expansion. | \$ 491,900 |
| The General Fund transferred to the Charter School Non-Major Governmental Fund for allocation of various categorical funds. | 169,069 |
| The General Fund transferred to the Cafeteria Non-Major Governmental Fund for repayment of indirect costs charged to the program. | 511,043 |
| The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital projects costs. | 5,100,000 |
| The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for savings resulting from the solar energy project. | 2,585,106 |
| The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments. | 4,748,567 |
| The General Fund transferred to the Internal Service Fund for health benefits reserve. | 1,200,000 |
| The General Fund transferred to the Internal Service Fund for health and welfare benefit related costs. | 707,970 |
| The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for future debt service payments. | 1,438,878 |
| The Capital Facilities Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for the reimbursement of interest payment on lease. | 539 |
| Total | \$ 16,953,072 |

SANTA ANA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Internal Service Fund | Total Governmental Activities |
|--|----------------------|--|------------------------------------|-----------------------------|-------------------------------------|
| Salaries and benefits | \$ 16,681,530 | \$ 7,882 | \$ 1,443,464 | \$ 708,330 | \$ 18,841,206 |
| LCFF apportionment | 4,879,007 | - | 9,323 | - | 4,888,330 |
| Books and supplies | 7,117,906 | 1,455 | 512,164 | 184,078 | 7,815,603 |
| Services and other operating payables | 6,244,230 | 14,545 | 1,862,121 | 100,091 | 8,220,987 |
| Construction | 1,309,776 | 3,633,421 | 2,392,736 | - | 7,335,933 |
| Vendor payables | 1,268,425 | - | 20,116 | 19,031 | 1,307,572 |
| Total | <u>\$ 37,500,874</u> | <u>\$ 3,657,303</u> | <u>\$ 6,239,924</u> | <u>\$ 1,011,530</u> | <u>\$ 48,409,631</u> |

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of the following:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Activities |
|------------------------------|---------------------|--|------------------------------------|-------------------------------------|
| Federal financial assistance | \$ 15,134 | \$ - | \$ - | \$ 15,134 |
| State categorical aid | 6,047,505 | 12,126,509 | 334,366 | 18,508,380 |
| Other local | 87,415 | - | - | 87,415 |
| Total | <u>\$ 6,150,054</u> | <u>\$ 12,126,509</u> | <u>\$ 334,366</u> | <u>\$ 18,610,929</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2016 | Additions | Deductions | Balance June 30, 2017 | Due in One Year |
|---|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| General obligation bonds | \$ 324,830,035 | \$ 8,387,782 | \$ 10,175,000 | \$ 323,042,817 | \$ 10,835,000 |
| Premium on issuance | 8,036,509 | - | 441,286 | 7,595,223 | - |
| Certificates of participation | 78,552,675 | 1,703,790 | 6,265,000 | 73,991,465 | 4,570,000 |
| Premium on issuance | 1,124,431 | - | 56,222 | 1,068,209 | - |
| 2002 Qualified zone academy bonds | 7,000,000 | - | 7,000,000 | - | - |
| 2005 Qualified zone academy bonds | 4,500,000 | - | - | 4,500,000 | - |
| Construction loan | - | 2,021,163 | - | 2,021,163 | - |
| Career Technical Education facilities program loan | 810,264 | - | 251,524 | 558,740 | 251,524 |
| Compensated absences | 1,427,201 | 1,519,646 | - | 2,946,847 | - |
| Claims liability | 13,713,796 | 1,983,245 | 2,811,721 | 12,885,320 | 2,811,721 |
| Other postemployment benefits (OPEB) | 55,618,044 | 15,734,554 | 19,567,518 | 51,785,080 | - |
| | <u>\$ 495,612,955</u> | <u>\$ 31,350,180</u> | <u>\$ 46,568,271</u> | <u>\$ 480,394,864</u> | <u>\$ 18,468,245</u> |

Payments made on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the certificates of participation are made by the Debt Service Fund for Blended Component Units. Construction loan will be paid by the Special Reserve Fund for Capital Outlay of Project. 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 | | | Bonds Outstanding June 30, 2017 |
|---------------|------------------|------------------|-------------------|-----------------------------|---------------------|----------------------|---------------------------------------|
| | | | | Outstanding July 1, 2016 | Accreted | Redeemed | |
| 10/30/02 | 08/01/32 | 2.68-5.53% | \$ 50,828,156 | \$ 44,430,839 | \$ 2,305,483 | \$ 3,520,000 | \$ 43,216,322 |
| 08/06/08 | 08/01/33 | 3.50-5.51% | 99,997,856 | 95,512,542 | 1,311,596 | 1,875,000 | 94,949,138 |
| 11/12/09 | 08/01/29 | 3.00-4.25% | 49,775,000 | 38,935,000 | - | 2,125,000 | 36,810,000 |
| 11/20/09 | 08/01/47 | 6.54-7.337% | 34,861,114 | 54,971,555 | 4,261,711 | - | 59,233,266 |
| 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 | 6,905,099 | 508,992 | 1,310,000 | 6,104,091 |
| 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 | 8,765,000 | - | 1,105,000 | 7,660,000 |
| 09/19/12 | 08/01/32 | 2.00-3.40% | 19,720,000 | 18,760,000 | - | 240,000 | 18,520,000 |
| | | | | <u>\$ 324,830,035</u> | <u>\$ 8,387,782</u> | <u>\$ 10,175,000</u> | <u>\$ 323,042,817</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the principal balance outstanding was \$43,216,322 (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, 2017, the principal balance outstanding was \$94,949,138 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2017, was \$3,854,259.

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, 2017, the principal balance outstanding was \$36,810,000.

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, 2017, the principal balance outstanding was \$59,233,266 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2017, was \$1,452,300.

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, 2017, the principal balance outstanding was \$19,240,000.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the principal balance outstanding was \$6,104,091 (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, 2017, the principal balance outstanding was \$17,535,000. Unamortized premium received on the bonds as of June 30, 2017 was \$1,867,642.

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, 2017, 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, 2017, the principal balance outstanding was \$7,660,000. Unamortized premium received on the bonds as of June 30, 2017 was \$421,022.

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, 2017, the principal balance outstanding was \$18,520,000.

SANTA ANA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 |
|-------------|--|-----------------------|---------------------------------|-----------------------|
| 2018 | \$ 10,750,908 | \$ 84,092 | \$ 9,469,321 | \$ 20,304,321 |
| 2019 | 11,207,505 | 442,495 | 10,167,176 | 21,817,176 |
| 2020 | 10,901,621 | 1,483,379 | 11,087,489 | 23,472,489 |
| 2021 | 10,807,218 | 2,172,782 | 11,280,036 | 24,260,036 |
| 2022 | 11,144,778 | 2,080,222 | 11,485,881 | 24,710,881 |
| 2023-2027 | 81,027,631 | 11,932,369 | 48,150,013 | 141,110,013 |
| 2028-2032 | 89,564,799 | 22,385,201 | 22,566,043 | 134,516,043 |
| 2033-2037 | 47,616,880 | 51,958,120 | 5,779,511 | 105,354,511 |
| 2038-2042 | 28,710,325 | 131,369,674 | 2,077,388 | 162,157,387 |
| 2043-2047 | 18,146,130 | 145,253,871 | - | 163,400,001 |
| 2048 | 3,165,022 | 25,334,978 | - | 28,500,000 |
| Total | <u>\$ 323,042,817</u> | <u>\$ 394,497,183</u> | <u>\$ 132,062,858</u> | <u>\$ 849,602,858</u> |

Certificates of Participation

The outstanding certificates of participation debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Outstanding July 1, 2016 | Accreted | Redeemed | Outstanding June 30, 2017 |
|---------------|------------------|------------------|-------------------|-----------------------------|---------------------|---------------------|------------------------------|
| 10/1/99 | 04/01/36 | 3.60-6.25% | \$ 17,691,700 | \$ 29,142,675 | \$ 1,703,790 | \$ 3,990,000 | \$ 26,856,465 |
| 5/1/07 | 04/01/37 | 3.56-4.41% | 29,725,000 | 23,170,000 | - | 1,015,000 | 22,155,000 |
| 12/5/12 | 12/01/35 | 4.25-5.20% | 30,000,000 | 26,240,000 | - | 1,260,000 | 24,980,000 |
| | | | | <u>\$ 78,552,675</u> | <u>\$ 1,703,790</u> | <u>\$ 6,265,000</u> | <u>\$ 73,991,465</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2036. These certificates were issued for the construction of two elementary schools. At June 30, 2017, the principal balance outstanding was \$26,856,465, including accreted interest on the capital appreciation certificates.

| Year Ending June 30, | Principal Including Accreted Interest | Accreted Interest | Total |
|-------------------------|--|----------------------|----------------------|
| 2018 | \$ 2,092,548 | \$ 127,452 | \$ 2,220,000 |
| 2019 | 2,037,095 | 257,905 | 2,295,000 |
| 2020 | 1,976,251 | 1,043,749 | 3,020,000 |
| 2021 | 1,917,356 | 1,012,644 | 2,930,000 |
| 2022 | 1,861,733 | 983,267 | 2,845,000 |
| 2023-2027 | 8,504,532 | 7,220,468 | 15,725,000 |
| 2028-2032 | 7,235,540 | 9,619,461 | 16,855,001 |
| 2033-2036 | 1,231,410 | 2,733,590 | 3,965,000 |
| Total | <u>\$ 26,856,465</u> | <u>\$ 22,998,536</u> | <u>\$ 49,855,001</u> |

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, 2017, the principal balance outstanding was \$22,155,000.

| Year Ending June 30, | Principal | Current Interest | Total |
|-------------------------|----------------------|----------------------|----------------------|
| 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 | 480,000 | 1,039,500 | 1,519,500 |
| 2023-2027 | 2,765,000 | 4,792,988 | 7,557,988 |
| 2028-2032 | 6,555,000 | 3,692,850 | 10,247,850 |
| 2033-2037 | 10,000,000 | 1,749,300 | 11,749,300 |
| Total | <u>\$ 22,155,000</u> | <u>\$ 15,667,308</u> | <u>\$ 37,822,308</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the principal balance outstanding was \$24,980,000.

| Year Ending June 30, | Principal | Current Interest | Total |
|-------------------------|----------------------|----------------------|----------------------|
| 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 | 1,285,000 | 909,874 | 2,194,874 |
| 2023-2027 | 6,500,000 | 3,724,338 | 10,224,338 |
| 2028-2032 | 6,640,000 | 2,249,218 | 8,889,218 |
| 2033-2036 | 5,465,000 | 571,350 | 6,036,350 |
| Total | <u>\$ 24,980,000</u> | <u>\$ 11,637,213</u> | <u>\$ 36,617,213</u> |

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, 2017, 2002 Lease Revenue Bonds, QZAB was fully defeased.

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, 2017, the principal balance outstanding was \$4,500,000.

Construction Loan

In December 2016, the District obtained a long-term loan to fund various construction and modernization projects. The loan will mature on December 1, 2026, with interest rate of 2.29 percent. At June 30, 2017, the outstanding balance on the loan was \$2,021,163.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the outstanding balance on the loan was \$558,740.

| Year Ending June 30, | Principal |
|-------------------------|-------------------|
| 2018 | \$ 251,524 |
| 2019 | 153,608 |
| 2020 | 153,608 |
| | <u>\$ 558,740</u> |

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2017, amounted to \$2,946,847.

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 \$12,885,320 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, 2017, was \$16,097,555, and contributions made by the District during the year were \$19,567,518. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$3,003,374 and \$(3,366,375), respectively, which resulted in a decrease to the net OPEB obligation of \$3,832,964. As of June 30, 2017, the net OPEB obligation was \$51,785,080. 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 \$7,555,000 as of June 30, 2017, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

SANTA ANA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 | \$ 150,000 | \$ - | \$ 6,130 | \$ 156,130 |
| Stores inventories | 870,680 | - | 529,702 | 1,400,382 |
| Prepaid expenditures | 87,678 | - | - | 87,678 |
| Total Nonspendable | <u>1,108,358</u> | <u>-</u> | <u>535,832</u> | <u>1,644,190</u> |
| Restricted | | | | |
| Legally restricted programs | 22,397,995 | - | 640,269 | 23,038,264 |
| Cafeteria program | - | - | 22,660,749 | 22,660,749 |
| Capital projects | - | 5,260,718 | 51,185,422 | 56,446,140 |
| Debt services | - | - | 26,547,729 | 26,547,729 |
| Total Restricted | <u>22,397,995</u> | <u>5,260,718</u> | <u>101,034,169</u> | <u>128,692,882</u> |
| Committed | | | | |
| Stabilization | 25,445,159 | - | - | 25,445,159 |
| Deferred maintenance program | - | - | 2,318,591 | 2,318,591 |
| Total Committed | <u>25,445,159</u> | <u>-</u> | <u>2,318,591</u> | <u>27,763,750</u> |
| Assigned | | | | |
| Capital projects | - | 8,184,024 | - | 8,184,024 |
| Other program balances | 63,547,771 | - | - | 63,547,771 |
| Total Assigned | <u>63,547,771</u> | <u>8,184,024</u> | <u>-</u> | <u>71,731,795</u> |
| Unassigned | | | | |
| Reserve for economic uncertainties | 12,931,648 | - | - | 12,931,648 |
| Total Unassigned | <u>12,931,648</u> | <u>-</u> | <u>-</u> | <u>12,931,648</u> |
| Total | <u>\$ 125,430,931</u> | <u>\$ 13,444,742</u> | <u>\$ 103,888,592</u> | <u>\$ 242,764,265</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Plan Description

The California Public Employees' Retirement System (CalPERS) administers the Santa Ana Unified School District's Postemployment Benefits Plan – a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees of the District. Financial information for CalPERS can be found on the CalPERS website at <https://www.calpers.ca.gov/page/forms-publications>.

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 751 retirees and beneficiaries currently receiving benefits and 4,067 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 2016-2017, the District contributed \$19,567,518 to the plan, of which \$9,567,518 was used for current premiums (approximately 83.3 percent of total premiums) and \$10,000,000 was contributed to the CalPERS Trust. Plan members receiving benefits contributed \$1,917,971, or approximately 16.7 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--|-----------------------------|
| Annual required contribution | \$ 16,097,555 |
| Interest on net OPEB obligation | 3,003,374 |
| Adjustment to annual required contribution | (3,366,375) |
| Annual OPEB cost (expense) | <u>15,734,554</u> |
| Contributions made | <u>(19,567,518)</u> |
| Decrease in net OPEB obligation | (3,832,964) |
| Net OPEB obligation, beginning of year | <u>55,618,044</u> |
| Net OPEB obligation, end of year | <u><u>\$ 51,785,080</u></u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 |
|------------------------|---------------------|------------------------|---------------------------|------------------------|
| 2015 | \$ 15,310,287 | \$ 9,515,197 | 62% | \$ 49,290,762 |
| 2016 | 16,758,432 | 10,431,150 | 62% | 55,618,044 |
| 2017 | 15,734,554 | 19,567,518 | 124% | 51,785,080 |

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 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 | \$ 10,000,000 | \$ 187,472,524 | \$177,472,524 | 5% | \$ 370,024,362 | 48% |

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.

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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, 2017, was 21 years. The actuarial value of assets was 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, 2016 to June 30, 2017:

| | Workers' Compensation | Property and Liability | Total |
|---|--------------------------|---------------------------|----------------------|
| Liability Balance, July 1, 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 |
| Claims and changes in estimates | 1,896,332 | 86,913 | 1,983,245 |
| Claims payments | (2,392,889) | (418,832) | (2,811,721) |
| Liability Balance, June 30, 2017 | <u>\$ 12,384,817</u> | <u>\$ 500,503</u> | <u>\$ 12,885,320</u> |
| Assets available to pay claims at June 30, 2017 | <u>\$ 31,259,203</u> | <u>\$ 401,610</u> | <u>\$ 31,660,813</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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, 2017, 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:

| <u>Pension Plan</u> | <u>Collective Net Pension Liability</u> | <u>Collective Deferred Outflows of Resources</u> | <u>Collective Deferred Inflows of Resources</u> | <u>Collective Pension Expense</u> |
|-------------------------------|---|--|---|---------------------------------------|
| CalSTRS | \$ 427,027,116 | \$ 87,532,205 | \$ 17,334,485 | \$ 43,938,201 |
| CalPERS | 149,251,038 | 48,109,065 | 5,967,983 | 19,701,387 |
| CalPERS - Safety Risk Pool | 2,506,207 | 1,294,793 | 847,202 | (908,926) |
| Total | <u>\$ 578,784,361</u> | <u>\$ 136,936,063</u> | <u>\$ 24,149,670</u> | <u>\$ 62,730,662</u> |

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, 2015, 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>.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, are summarized as follows:

| | <u>STRP Defined Benefit Program</u> | |
|---|-------------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | December 31, 2012 | 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 | 10.25% | 9.205% |
| Required employer contribution rate | 12.58% | 12.58% |
| Required State contribution rate | 8.828% | 8.828% |

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, 2017, are presented above and the District's total contributions were \$34,020,809.

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

At June 30, 2017, 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:

| | |
|---|-----------------------|
| Districts's proportionate share of net pension liability | \$ 427,027,116 |
| State's proportionate share of the net pension liability associated with the District | 243,098,920 |
| Total | <u>\$ 670,126,036</u> |

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively, was 0.5280 percent and 0.5389 percent, resulting in a net decrease in the proportionate share of 0.0109 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$43,938,201. In addition, the District recognized pension expense and revenue of \$23,498,069 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 34,020,809 | \$ - |
| Net change in proportionate share of net pension liability | 19,562,949 | 6,917,644 |
| Difference between projected and actual earnings on pension plan investments | 33,948,447 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | - | 10,416,841 |
| Total | <u>\$ 87,532,205</u> | <u>\$ 17,334,485</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 |
|------------------------|--|
| 2018 | \$ 740,642 |
| 2019 | 740,643 |
| 2020 | 19,734,351 |
| 2021 | 12,732,811 |
| Total | <u>\$ 33,948,447</u> |

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 measurement period is seven years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|------------------------|--|
| 2018 | \$ 858,518 |
| 2019 | 858,518 |
| 2020 | 858,518 |
| 2021 | 858,518 |
| 2022 | 858,517 |
| Thereafter | (2,064,125) |
| Total | <u>\$ 2,228,464</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2015 |
| Measurement date | June 30, 2016 |
| 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:

| <u>Asset Class</u> | <u>Assumed Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--|---------------------------------|---|
| Global equity | 47% | 6.30% |
| Fixed income | 12% | 0.30% |
| Real estate | 13% | 5.20% |
| Private equity | 13% | 9.30% |
| Absolute Return/Risk Mitigating Strategies | 9% | 2.90% |
| Inflation sensitive | 4% | 3.80% |
| Cash/liquidity | 2% | -1.00% |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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:

| <u>Discount Rate</u> | <u>Net Pension Liability</u> |
|-------------------------------|----------------------------------|
| 1% decrease (6.60%) | \$ 614,588,327 |
| Current discount rate (7.60%) | 427,027,116 |
| 1% increase (8.60%) | 271,249,677 |

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, 2015 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Safety Risk Pool Actuarial Valuation Report. 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>.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | December 31, 2012 | 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 | 7.00% | 6.00% |
| Required employer contribution rate | 13.888% | 13.888% |

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, 2017, are presented above and the total District contributions for CalPERS and CalPERS Safety Risk Pool were \$12,902,202 and \$403,287, respectively.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS and CalPERS Safety Risk Pool net pension liability totaling \$149,251,038 and \$2,506,207, respectively. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively, was 0.7557 percent and 0.7186 percent, resulting in a net increase in the proportionate share of 0.0371 percent. The District's CalPERS Safety Risk Pool's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0484 percent and 0.0494 percent, resulting in a net decrease in the proportionate share of 0.0010 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$19,701,387 for CalPERS and \$(908,926) for CalPERS Safety Risk Pool. At June 30, 2017, 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 | \$ 12,902,202 | \$ - |
| Net change in proportionate share of net pension liability | 5,628,676 | 1,483,878 |
| Difference between projected and actual earnings on pension plan investments | 23,158,962 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 6,419,225 | - |
| Changes of assumptions | - | 4,484,105 |
| Total | <u>\$ 48,109,065</u> | <u>\$ 5,967,983</u> |

| | CalPERS Safety Risk Pool | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$ 403,287 | \$ - |
| Net change in proportionate share of net pension liability | - | 624,147 |
| Difference between projected and actual earnings on pension plan investments | 891,506 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | - | 41,618 |
| Changes of assumptions | - | 181,437 |
| Total | <u>\$ 1,294,793</u> | <u>\$ 847,202</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 |
|------------------------|---|
| 2018 | \$ 3,248,351 |
| 2019 | 3,248,352 |
| 2020 | 10,617,974 |
| 2021 | 6,044,285 |
| Total | <u>\$ 23,158,962</u> |

| Year Ended June 30, | CalPERS Safety Risk Pool Deferred Outflows of Resources |
|------------------------|---|
| 2018 | \$ 125,862 |
| 2019 | 125,863 |
| 2020 | 407,696 |
| 2021 | 232,085 |
| Total | <u>\$ 891,506</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 CalPERS' EARSL for the 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 |
|------------------------|---|
| 2018 | \$ 1,322,510 |
| 2019 | 2,748,916 |
| 2020 | 2,008,492 |
| Total | <u>\$ 6,079,918</u> |

The CalPERS' Safety Risk Pool's EARSL is 3.8 years (measurement period 2014-2015) and 3.7 years (measurement period 2015-2016) and will be recognized in pension expense as follows:

| Year Ended June 30, | CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources |
|------------------------|---|
| 2018 | \$ (432,493) |
| 2019 | (361,264) |
| 2020 | (53,445) |
| Total | <u>\$ (847,202)</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2015 |
| Measurement date | June 30, 2016 |
| 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% | 5.71% |
| Global debt securities | 20% | 2.43% |
| Inflation assets | 6% | 3.36% |
| Private equity | 10% | 6.95% |
| Real estate | 10% | 5.13% |
| Infrastructure and Forestland | 2% | 5.09% |
| Liquidity | 1% | -1.05% |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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:

| <u>Discount rate</u> | <u>CalPERS Net Pension Liability</u> |
|-------------------------------|--|
| 1% decrease (6.65%) | \$ 222,683,380 |
| Current discount rate (7.65%) | 149,251,038 |
| 1% increase (8.65%) | 88,104,163 |

| <u>Discount rate</u> | <u>CalPERS Safety Risk Pool Net Pension Liability</u> |
|-------------------------------|---|
| 1% decrease (6.65%) | \$ 3,751,696 |
| Current discount rate (7.65%) | 2,506,207 |
| 1% increase (8.65%) | 1,483,788 |

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 \$21,936,541 (8.828 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*.

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017.

Litigation

The District is involved in various litigations 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, 2017.

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

| <u>Capital Projects</u> | <u>Remaining Construction Commitment</u> | <u>Expected Date of Completion</u> |
|--|--|--|
| Century - ATP TV relocation | \$ 10,000 | 1/8/2018 |
| ALA II - parking lights | 20,000 | 2/1/2018 |
| District office | 330,000 | 2/1/2018 |
| Spurgeon - CTE | 10,000 | 2/1/2018 |
| Segerstrom HS - shade structure, scoreboard - CCD for ramp | 20,000 | 2/1/2018 |
| Valley - P2P 28 - classrooms | 3,514,563 | 2/15/2018 |
| Roosevelt/Walker - community center planning | 2,552,325 | 3/1/2018 |
| ALA II - sewer | 75,000 | 3/1/2018 |
| Santa Ana - temporary and permanent kitchen | 2,991,904 | 4/1/2018 |
| Mitchell - site work & portables - phase 3 | 339,959 | 5/1/2018 |
| ALA II - portables | 200,000 | 7/1/2018 |
| | <u>\$ 10,063,751</u> | |

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the District made payments of \$2,056,861 and \$284,669 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, 2017**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - |
|---|-------------------------|-----------------------|--------------------------------|--------------------------------|
| | Original | Final | | Positive (Negative) |
| | | | | Final to Actual |
| REVENUES | | | | |
| Local Control Funding Formula | \$ 514,365,662 | \$ 514,118,942 | \$ 514,118,944 | \$ 2 |
| Federal sources | 43,962,920 | 57,409,542 | 48,653,269 | (8,756,273) |
| Other State sources | 77,624,666 | 95,980,873 | 91,959,911 | (4,020,962) |
| Other local sources | 7,731,934 | 10,109,686 | 12,388,475 | 2,278,789 |
| Total Revenues ¹ | 643,685,182 | 677,619,043 | 667,120,599 | (10,498,444) |
| EXPENDITURES | | | | |
| Current | | | | |
| Certificated salaries | 273,347,086 | 278,986,970 | 280,427,465 | (1,440,495) |
| Classified salaries | 93,377,664 | 90,454,500 | 90,926,861 | (472,361) |
| Employee benefits | 149,037,145 | 145,521,278 | 155,262,516 | (9,741,238) |
| Books and supplies | 34,704,400 | 41,466,310 | 29,642,164 | 11,824,146 |
| Services and operating expenditures | 67,064,905 | 78,537,541 | 61,858,510 | 16,679,031 |
| Other outgo | 3,322,001 | 2,878,780 | 2,941,402 | (62,622) |
| Capital outlay | 4,956,827 | 7,225,142 | 5,587,379 | 1,637,763 |
| Debt service - principal | 251,524 | 251,524 | 251,524 | - |
| Debt service - interest | - | - | 5,613 | (5,613) |
| Total Expenditures ¹ | 626,061,552 | 645,322,045 | 626,903,434 | 18,418,611 |
| Excess of Revenues Over Expenditures | 17,623,630 | 32,296,998 | 40,217,165 | 7,920,167 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | (6,828,416) | (27,619,348) | (15,513,655) | 12,105,693 |
| Net Financing Sources (Uses) | (6,828,416) | (27,619,348) | (15,513,655) | 12,105,693 |
| NET CHANGE IN FUND BALANCES | 10,795,214 | 4,677,650 | 24,703,510 | 20,025,860 |
| Fund Balances - Beginning | 100,727,421 | 100,727,421 | 100,727,421 | - |
| Fund Balances - Ending | \$ 111,522,635 | \$ 105,405,071 | \$ 125,430,931 | \$ 20,025,860 |

¹ Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund 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, 2017**

| 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 | 10,000,000 | 187,472,524 | 177,472,524 | 0% | 370,024,362 | 48% |

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, 2017

| | 2017 | 2016 | 2015 |
|---|-----------------------|-----------------------|-----------------------|
| CalSTRS | | | |
| District's proportion of the net pension liability | 0.5280% | 0.5389% | 0.5013% |
| District's proportionate share of the net pension liability | \$ 427,027,116 | \$ 362,799,016 | \$ 292,931,830 |
| State's proportionate share of the net pension liability associated with the District | 243,098,920 | 191,880,686 | 176,884,886 |
| Total | <u>\$ 670,126,036</u> | <u>\$ 554,679,702</u> | <u>\$ 469,816,716</u> |
| District's covered - employee payroll | <u>\$ 261,397,446</u> | <u>\$ 245,668,908</u> | <u>\$ 224,429,169</u> |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 163.36% | 147.68% | 130.52% |
| Plan fiduciary net position as a percentage of the total pension liability | 70% | 74% | 77% |
| CalPERS | | | |
| District's proportion of the net pension liability | 0.7557% | 0.7186% | 0.7462% |
| District's proportionate share of the net pension liability | \$ 149,251,038 | \$ 105,921,641 | \$ 84,713,519 |
| District's covered - employee payroll | \$ 90,150,755 | \$ 79,423,023 | \$ 74,554,979 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 165.56% | 133.36% | 113.63% |
| Plan fiduciary net position as a percentage of the total pension liability | 74% | 79% | 83% |
| CalPERS - SAFETY RISK POOL | | | |
| District's proportion of the net pension liability | 0.0484% | 0.0494% | 0.0302% |
| District's proportionate share of the net pension liability | \$ 2,506,207 | \$ 2,034,198 | \$ 1,878,447 |
| District's covered - employee payroll | \$ 2,019,608 | \$ 1,960,237 | \$ 1,714,755 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 124.09% | 103.77% | 109.55% |
| Plan fiduciary net position as a percentage of the total pension liability | 74% | 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, 2017**

| | 2017 | 2017 | 2015 |
|--|-----------------------|-----------------------|-----------------------|
| CalSTRS | | | |
| Contractually required contribution | \$ 34,020,809 | \$ 28,047,946 | \$ 21,815,399 |
| Contributions in relation to the contractually required contribution | <u>34,020,809</u> | <u>28,047,946</u> | <u>21,815,399</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 270,435,684</u> | <u>\$ 261,397,446</u> | <u>\$ 245,668,908</u> |
| Contributions as a percentage of covered - employee payroll | <u>12.58%</u> | <u>10.73%</u> | <u>8.88%</u> |
| CalPERS | | | |
| Contractually required contribution | \$ 12,902,202 | \$ 10,680,160 | \$ 9,348,884 |
| Contributions in relation to the contractually required contribution | <u>12,902,202</u> | <u>10,680,160</u> | <u>9,348,884</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 92,901,800</u> | <u>\$ 90,150,755</u> | <u>\$ 79,423,023</u> |
| Contributions as a percentage of covered - employee payroll | <u>13.888%</u> | <u>11.847%</u> | <u>11.771%</u> |
| CalPERS - SAFETY RISK POOL | | | |
| Contractually required contribution | \$ 403,287 | \$ 371,309 | \$ 313,139 |
| Contributions in relation to the contractually required contribution | <u>403,287</u> | <u>371,309</u> | <u>313,139</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 2,019,608</u> | <u>\$ 1,960,237</u> | <u>\$ 1,714,755</u> |
| Contributions as a percentage of covered - employee payroll | <u>19.97%</u> | <u>18.94%</u> | <u>18.26%</u> |

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

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.

SUPPLEMENTARY INFORMATION

SANTA ANA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|----------------|---|-------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Fund for the Improvement of Education - Fitness for All | 84.215E | [1] | \$ 447,274 |
| Positive School Climate Model | 84.411C | [1] | 106,296 |
| Passed through California Department of Education (CDE): | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | 16,478,711 |
| Title I, Part C, Migrant Education (Regular and Summer Program) | 84.011 | 14326 | 373,758 |
| Title I, Part C, Even Start Migrant Education (MEES) | 84.011 | 14768 | 87,641 |
| Title I, School Improvement Grant | 84.377 | 15248 | 2,349,691 |
| Title II, Part A, Improving Teacher Quality Local Grants | 84.367 | 14341 | 3,630,523 |
| Title III, English Learner Student Program | 84.365 | 14346 | 2,588,334 |
| Title II, Part B, CA Mathematics and Science Partnerships | 84.366 | 14512 | 660,119 |
| Title IV, Part B, 21st Century Community Learning Centers Program | 84.287 | 14349 | 1,929,310 |
| Title X McKinney-Vento Homeless Assistance Grants | 84.196 | 14332 | 300,084 |
| Special Education Cluster: | | | |
| Basic Local Assistance Entitlement, Part B, Sec 611 | 84.027 | 13379 | 9,290,777 |
| Preschool Grants, Part B, Sec 619 | 84.173 | 13430 | 346,668 |
| Preschool Local Entitlement, Part B, Sec 611 | 84.027A | 13682 | 1,270,787 |
| Mental Health Allocation Plan, Part B, Sec 611 | 84.027A | 15197 | 619,042 |
| Preschool Staff Development, Part B, Sec 619 | 84.173A | 13431 | 7,577 |
| Alternate Dispute Resolution, Part B, Sec 611 | 84.173A | 13007 | 26,581 |
| Total Special Education Cluster | | | <u>11,561,432</u> |
| Early Intervention Grants, Part C | 84.181 | 23761 | 282,678 |
| Passed through Central County Regional Occupational Program: | | | |
| Carl D. Perkins Career and Technical Education: Secondary, Section 131 | 84.048 | 14894 | 509,537 |
| Passed through Rancho Santiago Community College District: | | | |
| California State Gear Up Program | 84.334A | 10088 | 1,140 |
| Passed through California Department of Rehabilitation: | | | |
| Workability II, Transition Partnership | 84.126 | 10006 | 353,066 |
| Total U.S. Department of Education | | | <u>41,659,594</u> |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through CDE: | | | |
| Child Nutrition Cluster: | | | |
| National School Lunch Program | 10.555 | 13396 | 23,504,557 |
| School Breakfast Program | 10.553 | 13390 | 7,153 |
| Especially Needy Breakfast Program | 10.553 | 13526 | 6,285,531 |
| Commodities | 10.555 | 13396 | 2,999,106 |
| Seamless Summer Feeding Program | 10.559 | 13004 | 1,141,564 |
| Total Child Nutrition Cluster | | | <u>33,937,911</u> |
| Child and Adult Care Food Program | 10.558 | 13666 | 4,348,624 |
| Passed through County of Orange - Health Care Agency: | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance | 10.574 | [1] | 70,540 |
| Total U.S. Department of Agriculture | | | <u>38,357,075</u> |

[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, 2017**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|----------------|---|-------------------------|
| 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 | \$ 2,483,376 |
| Medi-Cal Administrative Activities | 93.778 | 10060 | 506,347 |
| Total Medi-Cal Assistance Program | | | <u>2,989,723</u> |
| Passed through Orange County Head Start, Inc. | | | |
| Head Start | 93.600 | 10016 | 3,400,029 |
| Total U.S. Department of Health and Human Services | | | <u>6,389,752</u> |
| NATIONAL SCIENCE FOUNDATION | | | |
| Passed through Regents of the University of California, Irvine: | | | |
| Irvine Mathematics Project | 47.076 | [1] | 154,418 |
| U.S. DEPARTMENT OF DEFENSE | | | |
| Junior Reserve Officer Training Corps | 12.000 | [1] | 211,967 |
| Total Expenditures of Federal Awards | | | <u>\$ 86,772,806</u> |

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

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

| <u>MEMBER</u> | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
|------------------------|----------------|---------------------|
| John Palacio | President | 2018 |
| Valerie Amezcua | Vice President | 2018 |
| Cecilia Iglesias | Clerk | 2020 |
| Alfonso Alvarez, Ed.D. | Member | 2020 |
| Rigo Rodriguez, Ph.D. | Member | 2020 |

ADMINISTRATION

| | |
|-----------------------------|---|
| Stefanie P. Phillips, Ed.D. | Superintendent |
| David Haglund | Deputy Superintendent, Educational Services/CAO |
| Edmond Heatley, Ed.D. | Deputy Superintendent, Administrative Services |
| Tina Douglas | Assistant Superintendent, Business Services |
| Michelle Rodriguez, Ed.D. | Assistant Superintendent, Elementary Education |
| Lucinda Pueblos | Assistant Superintendent, K-12 School Performance and Culture |
| Doreen Lohnes | Assistant Superintendent, Special Education/SELPA |
| 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, 2017**

| | Final Report | |
|---|-------------------------------------|------------------------------|
| | Second Period Report 14C45E16 | Annual Report 1D8D8D87 |
| | | |
| Regular ADA | | |
| Transitional kindergarten through third | 15,256.04 | 15,200.35 |
| Fourth through sixth | 11,730.55 | 11,681.89 |
| Seventh and eighth | 7,364.36 | 7,327.87 |
| Ninth through twelfth | 13,923.94 | 13,802.89 |
| Total Regular ADA | 48,274.89 | 48,013.00 |
| Extended Year Special Education | | |
| Transitional kindergarten through third | 54.24 | 54.24 |
| Fourth through sixth | 24.24 | 24.24 |
| Seventh and eighth | 4.74 | 4.74 |
| Ninth through twelfth | 95.02 | 95.02 |
| Total Extended Year Special Education | 178.24 | 178.24 |
| Special Education, Nonpublic, Nonsectarian Schools | | |
| Transitional kindergarten through third | 1.92 | 1.86 |
| Fourth through sixth | 5.88 | 5.45 |
| Seventh and eighth | 4.28 | 3.78 |
| Ninth through twelfth | 9.08 | 8.93 |
| Total Special Education, Nonpublic, Nonsectarian Schools | 21.16 | 20.02 |
| Extended Year Special Education, Nonpublic, Nonsectarian Schools | | |
| Transitional kindergarten through third | 0.16 | 0.16 |
| Fourth through sixth | 0.61 | 0.61 |
| Seventh and eighth | 0.46 | 0.46 |
| Ninth through twelfth | 1.07 | 1.07 |
| Total Extended Year Special Education, Nonpublic, Nonsectarian Schools | 2.30 | 2.30 |
| Community Day School | | |
| Seventh and eighth | 9.65 | 13.67 |
| Ninth through twelfth | 21.56 | 21.53 |
| Total Community Day School | 31.21 | 35.20 |
| Total ADA | 48,507.80 | 48,248.76 |
| CHARTER SCHOOL - Advanced Learning Academy | | |
| | 3D4C124D | D32EDD6F |
| Regular ADA | | |
| Transitional kindergarten through third | 19.19 | 19.24 |
| Fourth through sixth | 163.06 | 162.35 |
| Seventh and eighth | 44.55 | 43.97 |
| Total Regular ADA | 226.80 | 225.56 |
| Classroom based ADA | | |
| Transitional kindergarten through third | 19.19 | 19.24 |
| Fourth through sixth | 163.06 | 162.35 |
| Seventh and eighth | 44.55 | 43.97 |
| Total Regular ADA | 226.80 | 225.56 |

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

| Grade Level | 1986-87 | 2016-17 | Number of Days | | Status |
|---------------|---------------------|----------------|----------------------|---------------------|----------|
| | Minutes Requirement | Actual Minutes | Traditional Calendar | Multitrack Calendar | |
| Kindergarten | 36,000 | 36,000 | 182 | - | Complied |
| Grades 1 - 3 | 50,400 | | | | |
| Grade 1 | | 51,363 | 182 | - | Complied |
| Grade 2 | | 51,363 | 182 | - | Complied |
| Grade 3 | | 51,363 | 182 | - | Complied |
| Grades 4 - 6 | 54,000 | | | | |
| Grade 4 | | 54,859 | 182 | - | Complied |
| Grade 5 | | 54,859 | 182 | - | Complied |
| Grade 6 | | 55,044 | 182 | - | Complied |
| Grades 7 - 8 | 54,000 | | | | |
| Grade 7 | | 55,044 | 182 | - | Complied |
| Grade 8 | | 55,044 | 182 | - | Complied |
| Grades 9 - 12 | 64,800 | | | | |
| Grade 9 | | 64,800 | 182 | - | Complied |
| Grade 10 | | 64,800 | 182 | - | Complied |
| Grade 11 | | 64,800 | 182 | - | Complied |
| Grade 12 | | 64,800 | 182 | - | Complied |

CHARTER SCHOOL - Advanced Learning Academy

| Grade Level | 1986-87 | 2016-17 | Number of Days | | Status |
|--------------|---------------------|----------------|----------------------|---------------------|----------|
| | Minutes Requirement | Actual Minutes | Traditional Calendar | Multitrack Calendar | |
| Grades 3 | 50,400 | | | | |
| Grade 3 | | 56,864 | 182 | - | Complied |
| Grades 4 - 6 | 54,000 | | | | |
| Grade 4 | | 56,864 | 182 | - | Complied |
| Grade 5 | | 56,864 | 182 | - | Complied |
| Grade 6 | | 56,864 | 182 | - | Complied |
| Grades 7 - 8 | 54,000 | | | | |
| Grade 7 | | 56,864 | 182 | - | Complied |
| Grade 8 | | 56,864 | 182 | - | 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, 2017**

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

| | <u>General Fund</u> | <u>Non-Major Governmental Funds</u> | <u>Internal Service Fund</u> |
|-----------------------------|-------------------------|---|--------------------------------------|
| NET ASSETS | | | |
| Balance, June 30, 2017, | | | |
| Unaudited Actuals | \$ 130,485,168 | \$ 112,497,864 | \$ 20,842,927 |
| Increase (Decrease) in: | | | |
| Cash in banks | (747,878) | 177,687 | (1,154,682) |
| Investments | - | (7,224,322) | - |
| Inventory | 109,115 | (80,429) | - |
| Prepaid expenses | - | - | 148,749 |
| Decrease (Increase) in: | | | |
| Accounts payable | (4,415,474) | (1,482,208) | - |
| Claims liability | - | - | 1,247,805 |
| Balance, June 30, 2017, | | | |
| Audited Financial Statement | <u>\$ 125,430,931</u> | <u>\$ 103,888,592</u> | <u>\$ 21,084,799</u> |

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

| | (Budget) 2018 ¹ | 2017 | 2016 | 2015 |
|---|-------------------------------|----------------|----------------|----------------|
| GENERAL FUND ⁴ | | | | |
| Revenues | \$ 645,282,127 | \$ 667,006,458 | \$ 660,120,516 | \$ 551,942,335 |
| Other sources | - | - | - | 1,313,312 |
| Total Revenues and Other Sources | 645,282,127 | 667,006,458 | 660,120,516 | 553,255,647 |
| Expenditures | 629,039,942 | 626,903,433 | 604,749,503 | 537,077,396 |
| Other uses and transfers out | 11,027,665 | 19,216,780 | 25,002,747 | 8,321,414 |
| Total Expenditures and Other Uses | 640,067,607 | 646,120,213 | 629,752,250 | 545,398,810 |
| INCREASE IN FUND BALANCE | \$ 5,214,520 | \$ 20,886,245 | \$ 30,368,266 | \$ 7,856,837 |
| ENDING FUND BALANCE | \$ 106,789,542 | \$ 101,575,022 | \$ 80,688,777 | \$ 50,320,511 |
| AVAILABLE RESERVES ² | \$ 12,801,352 | \$ 12,931,648 | \$ 12,327,715 | \$ 11,092,113 |
| AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³ | 2.00% | 2.00% | 2.01% | 2.08% |
| LONG-TERM OBLIGATIONS | N/A | \$ 480,394,864 | \$ 495,612,955 | \$ 493,382,389 |
| K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴ | 47,116 | 48,508 | 49,957 | 51,090 |

The General Fund balance has increased by \$51,254,511 over the past two years. The fiscal year 2017-2018 budget projects a further increase of \$5,214,520 (5.1 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 all of the past three years and anticipates incurring an operating surplus during the 2017-2018 fiscal year. Total long-term obligations have decreased by \$12,987,525 over the past two years.

Average daily attendance has decreased by 2,582 over the past two years. Additional decline of 1,392 ADA is anticipated during fiscal year 2017-2018.

¹ Budget 2018 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.

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

⁴ General Fund amounts do not include activity related to the consolidation of the 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, 2017**

| <u>Name of Charter School</u> | <u>Included in Audit Report</u> |
|--|-------------------------------------|
| 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. 0632) | No |
| Orange County 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, 2017**

| | Charter School Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Building Fund |
|--|------------------------------------|---------------------------------------|---------------------------|--|--------------------------|
| ASSETS | | | | | |
| Deposits and investments | \$ 445,201 | \$ 1,018,321 | \$ 21,536,309 | \$ 2,761,889 | \$ 4,091,097 |
| Receivables | 189,320 | 567,408 | 7,527,247 | 2,489 | 3,555 |
| Due from other funds | 982,585 | 27,723 | 760,005 | 1,976 | - |
| Prepaid expenses | - | - | 759 | - | - |
| Stores inventories | - | - | 529,702 | - | - |
| Total Assets | \$ 1,617,106 | \$ 1,613,452 | \$ 30,354,022 | \$ 2,766,354 | \$ 4,094,652 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 131,225 | \$ 210,635 | \$ 4,751,747 | \$ 428,622 | \$ 7,701 |
| Due to other funds | 1,090,892 | 823,171 | 2,405,694 | 19,141 | 28 |
| Unearned revenue | - | 334,366 | - | - | - |
| Total Liabilities | 1,222,117 | 1,368,172 | 7,157,441 | 447,763 | 7,729 |
| Fund Balances: | | | | | |
| Nonspendable | - | - | 535,832 | - | - |
| Restricted | 394,989 | 245,280 | 22,660,749 | - | 4,086,923 |
| Committed | - | - | - | 2,318,591 | - |
| Total Fund Balances | 394,989 | 245,280 | 23,196,581 | 2,318,591 | 4,086,923 |
| Total Liabilities and Fund Balances | \$ 1,617,106 | \$ 1,613,452 | \$ 30,354,022 | \$ 2,766,354 | \$ 4,094,652 |

See accompanying note to supplementary information.

| Capital Facilities Fund | County School Facilities Fund | Capital Project Fund for Blended Component Units | Bond Interest and Redemption Fund | Debt Service Fund for Blended Component Units | Total Non-Major Governmental Funds |
|--|--|---|--|--|---|
| \$ 16,950,343 | \$ 27,347,565 | \$ 604,063 | \$ 22,542,246 | \$ 4,493,444 | \$ 101,790,478 |
| 1,392,013 | 23,765 | 41 | - | 426 | 9,706,264 |
| 1,490,700 | - | - | - | - | 3,262,989 |
| - | - | - | - | - | 759 |
| - | - | - | - | - | 529,702 |
| \$ 19,833,056 | \$ 27,371,330 | \$ 604,104 | \$ 22,542,246 | \$ 4,493,870 | \$ 115,290,192 |
| | | | | | |
| \$ 709,819 | \$ 172 | \$ - | \$ - | \$ 3 | \$ 6,239,924 |
| - | - | - | - | 488,384 | 4,827,310 |
| - | - | - | - | - | 334,366 |
| 709,819 | 172 | - | - | 488,387 | 11,401,600 |
| | | | | | |
| - | - | - | - | - | 535,832 |
| 19,123,237 | 27,371,158 | 604,104 | 22,542,246 | 4,005,483 | 101,034,169 |
| - | - | - | - | - | 2,318,591 |
| 19,123,237 | 27,371,158 | 604,104 | 22,542,246 | 4,005,483 | 103,888,592 |
| | | | | | |
| \$ 19,833,056 | \$ 27,371,330 | \$ 604,104 | \$ 22,542,246 | \$ 4,493,870 | \$ 115,290,192 |

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, 2017**

| | Charter School Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Building Fund |
|--|------------------------------------|---------------------------------------|---------------------------|--|--------------------------|
| REVENUES | | | | | |
| Local Control Funding Formula | \$ 2,107,960 | \$ - | \$ - | \$ 4,003,028 | \$ - |
| Federal sources | 42,333 | - | 38,286,535 | - | - |
| Other State sources | 269,503 | 5,371,481 | 2,436,562 | - | - |
| Other local sources | 10,694 | 30,714 | 2,639,064 | 16,368 | 36,052 |
| Total Revenues | 2,430,490 | 5,402,195 | 43,362,161 | 4,019,396 | 36,052 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 1,957,328 | 3,948,918 | - | - | - |
| Instruction-related activities: | | | | | |
| Supervision of instruction | 44,233 | 446,727 | - | - | - |
| School site administration | 407,263 | 241,776 | - | - | - |
| Pupil services: | | | | | |
| Food services | - | - | 40,804,155 | - | - |
| All other pupil services | 16,351 | 345,653 | - | - | - |
| Administration: | | | | | |
| All other administration | 119,950 | 252,080 | 1,907,298 | - | - |
| Plant services | 151,345 | 20,703 | 210,984 | 2,418,965 | 16,868 |
| Facility acquisition and construction | - | - | 312,654 | 500 | 128,136 |
| Enterprise services | - | - | 226,441 | - | - |
| Debt service | | | | | |
| Principal | - | - | - | - | - |
| Interest and other | - | - | - | - | - |
| Total Expenditures | 2,696,470 | 5,255,857 | 43,461,532 | 2,419,465 | 145,004 |
| Excess (Deficiency) of Revenues | | | | | |
| Over Expenditures | (265,980) | 146,338 | (99,371) | 1,599,931 | (108,952) |
| Other Financing Sources | | | | | |
| Transfers in | 660,969 | - | 511,043 | - | - |
| Transfers out | - | - | - | - | - |
| Net Financing Sources (Uses) | 660,969 | - | 511,043 | - | - |
| NET CHANGE IN FUND BALANCES | 394,989 | 146,338 | 411,672 | 1,599,931 | (108,952) |
| Fund Balances - Beginning | - | 98,942 | 22,784,909 | 718,660 | 4,195,875 |
| Fund Balances - Ending | \$ 394,989 | \$ 245,280 | \$ 23,196,581 | \$ 2,318,591 | \$ 4,086,923 |

See accompanying note to supplementary information.

| Capital Facilities Fund | County School Facilities Fund | Capital Project Fund for Blended Component Units | Bond Interest and Redemption Fund | Debt Service Fund for Blended Component Units | Total Non-Major Governmental Funds |
|--------------------------------|--------------------------------------|---|--|--|---|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,110,988 |
| - | - | - | 1,334,901 | - | 39,663,769 |
| - | - | - | 76,772 | - | 8,154,318 |
| 8,970,104 | 711,173 | 8,964 | 19,846,790 | 1,312,282 | 33,582,205 |
| <u>8,970,104</u> | <u>711,173</u> | <u>8,964</u> | <u>21,258,463</u> | <u>1,312,282</u> | <u>87,511,280</u> |
| - | - | - | - | - | 5,906,246 |
| - | - | - | - | - | 490,960 |
| - | - | - | - | - | 649,039 |
| - | - | - | - | - | 40,804,155 |
| - | - | - | - | - | 362,004 |
| 213,469 | - | - | - | - | 2,492,797 |
| 257,001 | 16,751 | 223,832 | - | - | 3,316,449 |
| 3,156,341 | - | 3,196 | - | - | 3,600,827 |
| - | - | - | - | - | 226,441 |
| - | - | - | 10,175,000 | 13,265,000 | 23,440,000 |
| - | - | 6,472 | 9,764,278 | 529,723 | 10,300,473 |
| <u>3,626,811</u> | <u>16,751</u> | <u>233,500</u> | <u>19,939,278</u> | <u>13,794,723</u> | <u>91,589,391</u> |
| <u>5,343,293</u> | <u>694,422</u> | <u>(224,536)</u> | <u>1,319,185</u> | <u>(12,482,441)</u> | <u>(4,078,111)</u> |
| - | - | - | - | 6,187,984 | 7,359,996 |
| (539) | - | - | - | - | (539) |
| <u>(539)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,187,984</u> | <u>7,359,457</u> |
| 5,342,754 | 694,422 | (224,536) | 1,319,185 | (6,294,457) | 3,281,346 |
| 13,780,483 | 26,676,736 | 828,640 | 21,223,061 | 10,299,940 | 100,607,246 |
| <u>\$ 19,123,237</u> | <u>\$ 27,371,158</u> | <u>\$ 604,104</u> | <u>\$ 22,542,246</u> | <u>\$ 4,005,483</u> | <u>\$ 103,888,592</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

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, 2017. 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: | | \$ 88,317,038 |
| Medi-Cal Billing Option | 93.778 | (209,331) |
| Build America Bonds | [1] | (1,334,901) |
| Total Schedule of Expenditures of Federal Awards | | \$ 86,772,806 |

[1] CFDA Number not available

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

SANTA ANA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

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 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, 2017, 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 13, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 to be a material weakness.

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 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 13, 2017.

Santa Ana Unified School District's Response to Findings

Santa Ana Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Santa Ana Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Vavink, Inc, Day & Co, LLP

Rancho Cucamonga, California
December 13, 2017



**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, 2017. 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.

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, 2017.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Varrinck, Irwin, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2017



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

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 *2016-2017 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, 2017.

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 *2016-2017 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 the After School Education and Safety Program

As described in the accompanying schedule of findings and questioned costs, Santa Ana Unified School District did not comply with requirements regarding the After School Education and Safety Program; refer to State Awards Findings and Questioned Costs, finding 2017-002. Compliance with such requirements is necessary, in our opinion, for Santa Ana Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on the After School Education and Safety Program

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, 2017.

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, 2017, 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:

| | <u>Procedures Performed</u> |
|---|---------------------------------|
| LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS | |
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | No, see below |
| 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 |
| Mental Health Expenditures | 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 |
| 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 |

Procedures
Performed

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 offer an Independent Study Program, but the ADA was below the threshold required for testing; therefore, we did not perform procedures related to the Independent Study Program.

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 does not have any Non Classroom-Based Instruction/Independent Study for Charter Schools; therefore, we did not perform any procedures related to the Non Classroom-Based Instruction/Independent Study for Charter Schools.

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.

Vavnick, Irwin, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA ANA UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|--|
| 84.010 | Title I, Part A, Basic Grants Low-Income and Neglected |
| 84.365 | Title III, English Learner Student Program |

| | |
|--|---------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$ 2,603,184</u> |
| Auditee qualified as low-risk auditee? | <u>Yes</u> |

STATE AWARDS

| | |
|---|-------------------|
| Type of auditor's report issued on compliance for State programs: | <u>Unmodified</u> |
| Unmodified for all programs except for the following program which was qualified: | |

| |
|--|
| <u>Name of Program</u> |
| <u>After School Education and Safety Program</u> |

SANTA ANA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

| <u>Five Digit Code</u> | <u>AB 3627 Finding Type</u> |
|------------------------|-----------------------------|
| 30000 | Internal Control |

Capital Assets (Material Weakness)

2017-001 30000

Criteria or Specific Requirements

Education Code Section 35168 requires the District to establish and maintain an inventory of all capital assets. GASB Statement 34 also requires the accounting for capital assets in excess of the capitalization threshold (\$5,000). In order to ensure the accurate reporting of capital assets, the District must establish procedures to track and monitor capital asset activity on an annual basis, including acquisitions, dispositions, and construction in process activities.

Condition

The District currently has a capital asset system; however, it is not fully functional. The following conditions were noted:

1. There is no personnel at the District that has been assigned to maintain the system.
2. The work in progress account has not been reconciled to ensure all completed projects are transferred to the appropriate classification to be depreciated.
3. Equipment inventory has not been reconciled to ensure that all equipment reported still exists.
4. Due to the system not functioning properly, accumulated depreciation appears to be misstated.

Questioned costs

There is no questioned costs associated with this condition.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the capital asset activities.

Effect

Consequently, amounts recorded for capital assets in the district's financial statements could be misstated. In addition, by not performing physical inventory counts of capital assets, the District increases the risk of loss from damage, theft, or otherwise.

SANTA ANA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

Cause

The condition identified above appears to be caused by the lack of formal procedures related to this process, including the assignment of personnel to track and monitor capital asset activities on a regular basis.

Recommendation

The District should establish and enforce formalized procedures related to monitoring capital asset 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 along with a process for reconciling physical inventory count information with the perpetual capital asset listing.

Corrective Action Plan

The District is currently working to rectify this issue by manually recording all past acquisitions into the Oracle Fixed Asset module; it is anticipated that the District will complete input of prior year acquisitions by the end of December 2017. Once this phase of the project is completed, the District will contract with a vendor to conduct a physical inventory of the capital assets by April 2018. Upon completion of the physical inventory, the District will reconcile the information provided by the vendor to the Oracle Fixed Asset module. All fixed asset purchases, as July 1, 2017, are being recorded into the Oracle Fixed Assets module and it will be fully maintained going forward.

SANTA ANA UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

SANTA ANA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

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:

| <u>Five Digit Code</u> | <u>AB 3627 Finding Type</u> |
|------------------------|-----------------------------|
| 40000 | State Compliance |

After School Education and Safety Program (ASES)

2017-002 400000

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 Martin Elementary School's monthly summary total for the month of December 2016 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals differ significantly. Martin Elementary School's attendance rosters had a total of 1,847 students served whereas the total of the monthly summary are 1,877 students served, resulting in 30 exceptions. Exceptions consisted of 30 students who were released before 6PM 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 30 students served during the month of December 2016 for which the attendance rosters did not conform to the District's early release policy.

Context

The condition identified resulted from our review of Martin Elementary School's attendance records and monthly attendance summary totals for the month of December 2016. For the after school component of the program, auditor selected four out of 46 schools for the first semi-annual reporting period dated July to December 2016. Auditor noted that for the month of December 2016, Martin Elementary School did not consistently have early release forms for students that were being released before 6PM.

SANTA ANA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

Effect

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2016-2017 fiscal year for Martin 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, 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 site did not have early release forms 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 forms 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 the finding only included one (Martin Elementary) of the four schools audited, the program administrators will schedule an on-site observation of the sign out procedures and note any gaps or concerns, and then retrain the site staff, as needed.

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

- A comprehensive early release policy and early release forms, which have been reviewed and approved by the California Department of Education, After School Division.
- A weekly attendance cover sheet for Site Coordinators to report daily and weekly attendance totals, and are included in their weekly attendance packet.
- All Site Coordinators have been trained and retrained on detailed early release procedures
 - Newly hired Site Coordinators are trained in orientation
- Schools sites experiencing difficulty with parent compliance have distributed letters reminding parents of the early release policy
 - Prior to ASES Registration a video media piece is released to all parents detailing the expectations for attendance and early student release

SANTA ANA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

- 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

SANTA ANA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

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.

State Awards Findings

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

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.

Current Status

Not implemented, see finding 2017-002.

SANTA ANA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

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.

SANTA ANA UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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 |

SANTA ANA UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

| 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 |

SANTA ANA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

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.

Current Status

Implemented



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

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, 2017, 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 13, 2017, on the government-wide financial statements of the District.

INTERNAL CONTROLS

Bank Account Reconciliation

Observation

The Civic Center bank reconciliation was not completed for the month of June 2017, 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.

Clearing Account

Observation

Per review of the supporting documents pertaining to the District's clearing accounts (Depository, Civic Center, and Benefits), it was noted that the District is not performing timely transfers of local revenues to the County Treasurer.

Recommendation

The District should establish procedures related to the frequency of County transfers. The frequency of transfers may need to be increased depending on the volume and amount of cash collected, since the funds that are in the clearing account are not recognized as revenue until the transfer to clear the account to the Cash in County occurs.

Non-Payroll Disbursements

Observation

It was noted that four of 40 disbursements selected for testing were not approved prior to the transaction taking place. This would indicate that the items/services were purchased prior to receiving an approval.

Recommendation

All disbursements should be pre-approved prior to the transaction taking place. Disbursements should go through multiple levels of approval. One of those approvals is by the business department. The business department is responsible for reviewing account coding and making sure that expenditures are limited by established budgets.

Non-Payroll Disbursements – General Revolving

Observation

It was noted that four of 40 disbursements selected for testing were not approved prior to the transaction taking place. This would indicate that the items/services were purchased prior to receiving an approval.

Recommendation

All disbursements should be pre-approved prior to the transaction taking place. Disbursements should go through multiple levels of approval. One of those approvals is by the business department. The business department is responsible for reviewing account coding and making sure that expenditures are limited by established budgets

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 two of seven employees tested, the employees were released at the site level prior to being authorized by the 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 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.

Vacation Accrual

Observation

During vacation testing it was noted that 15 of the 20 individuals tested, exceeded the allowed carry over balance per the established contract agreement. Per review of the contract agreement, 12-month employees are allowed to carry over one half of each years allowance (up to one year), subject to approval from the Assistant Superintendent of Personnel Services. For employees working less than 12 months, their vacation allowance should be used in the year it is earned.

Recommendation

It is recommended that the District adhere to established policies and ensure vacation accruals are not in excess of the established contract agreements. The District should encourage its employees to utilize their vacation hours throughout the year. At the end of the fiscal year, the District should payout any excess days over the allowed five days.

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

Observation

Per review of the ASB bank account reconciliations, it was noted that the reconciliations are not being prepared and reviewed in a timely manner. As of the audit date, the ASB had not completed the bank reconciliation after February 2017.

Recommendation

Bank reconciliation should be performed on a monthly basis. Independent review of prepared bank reconciliation should always be performed by an administrator with accounting knowledge to ensure proper monitoring of the ASB 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.

Observation

Per review of the ASB account analysis report, it was noted that the ASB is not tracking the web store clearing account correctly. When a web store transaction occurs, the system automatically debits the web store clearing account and credits revenue. At a later date when funds are received the ASB will debit the checking account and credit revenue. This results in the web store clearing account continuing to grow as it is not reconciled and the revenue related to the web store transactions are recorded twice.

Recommendation

The ASB should revise its procedures to ensure the web store clearing account is properly reconciled. When the funds are received from the web store sales, the ASB should debit the checking account and credit the web store clearing account.

Gonzalo Felicitas Mendez 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. 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 cash receipting procedures over fund raising activity, it was noted that a deposit was not made intact. Per the Coin and Currency Count forms the deposit should have been in the amount of \$2,348; however the amount deposited was \$1,847.50. The ASB was unable provide an explanation for the variance of \$500.50. In addition, it was noted that the ASB doesn't have procedures in place to ensure there are two individuals present during the cash count.

3. Based on the review of the cash receipting procedures, it was noted that three of five deposits tested were not deposited in a timely manner. Delay in deposit ranged from approximately 16 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.
4. Based on the review of the disbursement procedures, it was noted that two 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.
5. 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, two of four vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
6. Open purchase orders are being liberally used for ASB disbursements. Many of the purchase orders were created at the beginning of the year for a flat amount and covered general purchases. These purchase orders did not identify specific vendors that the ASB would engage in business transactions with. Instead they were approved for a generic list of items the club might purchase. The use of such purchase requests prevents the ASB from identifying deficit spending and prevents the ASB from engaging in the proper pre-approval of transactions.
7. Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.
8. 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.
9. A master ticket log, for the pre-numbered wrist bands, is not being used by the sites to account for all tickets on hand and used during the year.
10. Per review of the ticket sales report, it was noted that for one of the school dances the ASB utilized 228 wristbands; however, per review of the Blue Bear report it was noted that only 135 wristbands were sold. In addition, the wristbands were not sold sequentially. The ASB was unable to locate the missing wristbands.
11. Per review of the account analysis report, it was noted that the current year beginning balance does not agree to the prior year ending balance. The prior year ending balance was \$26,777 and current year beginning balance was \$65,508. The ASB is unable to reconcile the difference.

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 students 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 receipt 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. In order to validate that collections are deposited timely and intact, the site should maintain proper documentation of the monies collected including identifying the receipts included in each deposit. In addition, it is recommended that the ASB revise their cash count procedures to have two people perform the count together and both sign-off the cash count sheet to deter misappropriation of cash.
3. 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.
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. 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.
6. The ASB should minimize the use of open purchase orders with high authorization amounts. The ASB should also be cognizant of its operating budget when creating these open purchase orders in order to prevent any instances of deficit spending. Furthermore, all purchase orders created and approved by the ASB should identify specific vendors that the ASB would engage in business transactions with. This would allow the ASB to facilitate the pre-approval of disbursement transactions.
7. 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 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 counts 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, 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 Associates Student Body of the site. In addition, the inventory report should be compared to the corresponding time periods sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.
8. 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 ASB to adequately monitoring 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.

9. A master ticket log should be maintained which notes the type of wristband, color, and current beginning wristband number in the batch. The wristbands should be safeguarded as if they were cash because stolen wristbands would equate to lost revenue for the site since these wristbands could be presented for admission rather than an individual paying for admission. When wristband batches are issued, they should be logged out noting the beginning wristband number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.
10. The ASB should revise their procedures over ticket sales to ensure wristbands are tracked and sold sequentially. In addition, the wristbands should be safeguarded as if they were cash because stolen wristbands would equate to lost revenue for the site since these wristbands could be presented for admission rather than an individual paying for admission.
11. The ASB should reconcile prior year ending to current year beginning balance. Upon noticing a variance, the ASB should further investigate the variance.

Middle College High 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. Three of four 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 disbursement procedures, it was noted that nine of ten 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.
3. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

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 students 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. 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.
3. Revenue potential forms are not consistently being completed for fundraising events. Through testing, it was noted that eight of ten revenue potential forms used for fundraising events was not completed with respect to actual income and expense. As a result, expected versus actual results cannot be measured to determine whether or not the fundraiser was successful or any losses have occurred.

Valley High School

Observations

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

1. Based on the review of the cash receipting procedures, it was noted that one of nine deposits tested was not deposited in a timely manner. Delay in deposit was 13 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.
2. Based on the review of the disbursement procedures, it was noted that one of 16 disbursements tested was not approved prior to the transaction 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.
3. Based on the review of the disbursement procedures, it was noted that one of 16 expenditures was not adequately supported by an invoice.
4. Revenue potential forms are not consistently being completed for fundraising events. Through testing, it was noted that eight of ten revenue potential forms used for fundraising events was not completed with respect to actual income and expense. As a result, expected versus actual results cannot be measured to determine whether or not the fundraiser was successful or any losses have occurred.
5. Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.
6. The ticket sale deposits are not counted by two individuals simultaneously. Not having a second person present creates an opportunity for cash to be misappropriated.
7. One of four ticket sales forms tested did not have an explanation of why there was a shortage.

Recommendations

1. 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.
2. 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.
3. The site should maintain proper documentation of expenditures including invoices and receipts. ASB should ensure that all disbursement requests are supported by adequate invoices prior to the checks being issued. This will identify and prevent potential misappropriation of ASB funds.
4. Revenue potentials should be prepared completely to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, 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.
5. 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 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 counts 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, 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 Associates Student Body of the site. In addition, the inventory report should be compared to the corresponding time periods sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.
6. It is recommended that the ASB revise their ticket sales deposit count procedures to have two people perform the count together and both sign-off on the cash count sheet to deter misappropriation of cash.
7. Ticket sales forms should document any overages and shortages of cash and inform site personnel about potential problems in cash collections. An explanation of any overages/shortages must be documented on the form.

Cesar E. Chavez High School

Observations

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

1. 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. Delay in deposit ranged from approximately 26 to 200 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.
2. Based on the review of the disbursement procedures, it was noted that two of two 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.
3. In reviewing the revenue potential forms, it was noted that all revenue potential forms were not completely filled out. Explanation for differences between budget and actual was not documented.

Recommendations

1. 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.
2. 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.
3. Revenue potentials 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, 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.

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

Vavinsk, Jinn, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2017