

ORANGE UNIFIED SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2017

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

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 FOR THE YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Orange Unified School District
Orange, 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 Orange Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Orange Unified School 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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State Board of Accountancy

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 Orange 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 required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents 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 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 November 27, 2017 on our consideration of Orange 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 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 Orange Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
November 27, 2017

Orange Unified School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), issued June 1999, established the current framework for the financial statements of state and local governments. GASB 34 requires that state and local government financial statements be presented in a prescribed format that includes the follow eight sections:

- 1 Management Discussion and Analysis
- 2 Basic Financial Statements
- 3 Required Supplementary Information
- 4 Supplementary Information
- 5 Optional Supplementary Information
- 6 Other Independent Auditor's Reports
- 7 Findings and Recommendations

This section of the financial statements, known as the Management Discussion and Analysis (MD&A), is prepared by the District's management team. The MD&A includes input from the District's five divisions represented by the following cabinet level administrators:

Superintendent's Office

- Michael L. Christensen, Superintendent

Educational Services

- Gunn Marie Hansen, Ph.D, Deputy Superintendent, Educational Services

Human Resources

- Ed Kisse, Assistant Superintendent, Human Resources

Business Services

- Joe Sorrera, Assistant Superintendent, Business Services

Facilities and Planning

- Ron Lebs, Assistant Superintendent, Facilities and Planning

The purpose of the Management's discussion and analysis (MD&A) is to introduce the basic financial statements and provide an objective and easy to understand analytical overview of the government's financial activities based on currently known facts, decisions, or conditions. Presented herein is a discussion of current-year results in comparison to the prior year with a focus on the District primary governmental activities (general fund). Component units and other activities that have a significant impact on the financial operation of the District are also discussed herein as appropriate.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

INTRODUCTION (continued)

This MD&A is divided into the following eight sections.

1. Financial Highlights and Pertinent District Information – Brief discussion of the basic financial highlights for the current year as well as frequently requested District information.
2. Financial Statements Overview – Brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide.
3. Condensed Financial Information – Comparisons of the current year to the prior year condensed financial information based on the government-wide information with emphasis on the current year.
4. Financial Position Analysis – Analysis of the government's overall financial position and results of operations to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's activities.
5. Fund Analysis – Analysis of balances and transactions of individual funds. This should include reasons for significant changes in fund balances or fund net assets and other restrictions, commitments, or other limitations that significantly affect the availability of fund resources for future use.
6. Budget Variation Analysis – Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget amounts results for the general fund. Also include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.
7. Capital Asset and Debt Activity – Describe capital asset and long-term debt activity during the year including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.
8. Current and Emerging Issues – Description of currently know facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL HIGHLIGHTS AND PERTINENT DISTRICT INFORMATION

Orange Unified School District is located in the central portion of Orange County. Founded in 1953, the District encompasses nearly 108 square miles, including the cities of Orange, Villa Park, and portions of Santa Ana, Anaheim, and Garden Grove. Starting from an original school building in 1872, the District has grown to 26 elementary schools (K-6), one Magnet School (K-8), three middle schools (7-8), two Charter Schools (7-8), four high schools (9-12), a school for students with special needs, a community day school, and one continuation high school. A Career Education Center houses the District's Regional Occupational Program and Child Development Center. The District educates approximately 30,000 students in the Cities of Orange, Villa Park, Anaheim, Garden Grove, Santa Ana and county areas.

Mission Statement

The Orange Unified School District, being committed to planning for continual improvement, will offer a learning environment of excellence, with high expectations, to provide each student with the opportunity to be able to compete in the global economy.

Main Goals

Conditions for Learning

All Students will receive a high quality education in a safe environment that prepares them to graduate from high school, college and career ready.

Pupil Outcomes

All Students will attain mastery or demonstrate academic growth toward mastery in core content areas.

Engagement

Student and Parent engagement will be promoted through an increased sense of safety and improved school climate and school connectedness.

LCAP Highlights

The Board of Education and the Superintendent have the responsibility of setting policy and direction for the District, a task accomplished by defining goals and actions to be implemented by staff. Student achievement remains our number one goal and provides focus as we incorporate Board of Education goals with valued stakeholder input generated during the Local Control Accountability Plan strategic planning process. Our goals and actions are the basis for allocating resources to our priorities: Conditions for Learning, Pupil Outcomes, and Student and Parent Engagement.

Some highlights from the 2017-2020 LCAP approved by the Board of Education on June 8, 2017:

- SAT School Day for all high school students
- Increasing access to Advanced Placement (AP) Courses and participation in AP Exams
- Increase access to Career Technical Education (CTE) Pathways and completion of CTE Pathways
- Increase in number of schools participating in AVID program (additional 4 elementary sites)
- Increase in elementary STEAM labs and robotics programs

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS OVERVIEW

- ▶ The District's total net position was \$85,399,451 at June 30, 2017. This was an increase of \$5,100,584 from the prior year.
- ▶ Overall revenues were \$332,373,090 which exceeded expenses of \$327,272,506.

The Orange Unified School District's MD&A provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. The information presented and discussed herein is designed to focus on the current year's activities, resulting changes, and currently known facts. A brief discussion of each of the sections that make up the financial statements is provided below.

Section 1 – Management Discussion and Analysis

As stated above, the purpose of the Management's discussion and analysis (MD&A) is to introduce the basic financial statements and provide overview of the District's financial activities.

Section 2 – Basic Financial Statements

The Basic Financial Statements include all activities for the District and its component units using the integrated approach prescribed by GASB 34. The Financial Section of the report is broken down into the following three major sections and accompanying subsections:

1. Government-Wide Financial Statements
 - a. Statement of Net Position
 - b. Statement of Activities
2. Fund Financial Statements
 - a. Balance Sheet – Governmental Funds
 - b. Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position
 - c. Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
 - d. Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
 - e. Statement of Net Position – Proprietary Funds
 - f. Statement of Revenues, Expenditures, and Changes in Fund Net Position – Proprietary Funds
 - g. Statement of Cash Flows – Proprietary Funds
 - h. Statement of Net Position – Proprietary Funds
3. Notes to Financial Statements

Government-Wide Financial Statements provide information about the activities of the Orange Unified School District as a whole and present a longer-term view of the District's finances.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS OVERVIEW (continued)

Section 2 – Basic Financial Statements (continued)

Fund Financial Statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements report the District’s operations in more detail than the government-wide statements by providing information about the District’s most significant funds. Since Local Educational Agencies are single-purpose/special-purpose government agencies, they are generally able to combine the government-wide and fund financial statements into single presentations. The Orange Unified School District has elected to present its annual financial information in this format.

Notes to Financial Statements provide pertinent information and written background to the District’s financial position that should be read in conjunction with the financial information presented in sections 1 and 2. The notes are the largest section of the report.

Section 3 – Required Supplementary Information

This section of the report provides required information specific to a Local Educational Agency that is not included in the Basic Financial Statements. It includes a schedule of budgetary comparison for the general fund as well as information and schedules related to net pension liabilities and post-employment retirement benefits.

Section 4 – Supplementary Information

Supplementary information includes general information about the District as well as, attendance, instructional minutes, schedule of expenditures of Federal Awards/Grants, summary of trends and analysis, reconciliation of budget with financial statements, and notes.

Section 5 – Optional Supplementary Information

The optional supplementary information section includes balance sheet and statement of revenues, expenditures, and changes in fund balance information for the District’s non-major funds, i.e., funds other than the Fund 01-General Fund.

Section 6 – Other Independent Auditor’s Reports

The following additional Auditor’s reports are included in this section:

- Report on Internal Control over Financial Reporting
- Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance for Each Major Federal Program
- Report on Internal Control over Compliance Required by OMB Uniform Grant Guidance
- Report on State Compliance

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS OVERVIEW (continued)

Section 7 – Findings and Recommendations

The following schedules are included in this section:

- Schedule of Findings and Questioned Costs – Summary of Auditor Results
- Schedule of Findings and Questioned Costs – Related to Financial Statements, Federal Awards and State Awards
- Status of Prior Year Findings and Questioned Costs

CONDENSED FINANCIAL INFORMATION

The District maintains 14 separate operating funds. While each of these funds serves a distinct purpose and reflects a specific portion of the District operations, the bulk of the District’s daily operations are serviced by the General Fund. A list of these 14 funds is provided below in Table 1 – District Operating Funds. The Statement of Net Position and Government-Wide Statement of Activities reports the District’s operations as a whole and includes the financial activities of all of the District’s 14 funds, except Fund 71 – Retiree Benefit Fund.

TABLE 1 – DISTRICT OPERATING FUNDS

1. Fund 01 – General Fund
2. Fund 09 – Charter Schools Fund
3. Fund 11 – Adult Education Fund
4. Fund 12 – Child Development Fund
5. Fund 13 – Cafeteria Fund
6. Fund 14 – Deferred Maintenance Fund
7. Fund 21 – Building Fund – Measure S
8. Fund 25 – Capital Facilities Fund (Developer Fees)
9. Fund 35 – County School Facilities Fund
10. Fund 40 – Special Reserve Fund for Capital Outlay Projects
11. Fund 49 – Special Reserve Fund for Blended Component Units
12. Fund 56 – Debt Service Fund
13. Fund 67 – Self-Insurance Fund
14. Fund 71 – Retiree Benefit Fund

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CONDENSED FINANCIAL INFORMATION (continued)

Table 2 – The Statement of Net Position Comparison provides a summarized comparison of the District’s current year government-wide (all funds) activities (assets, deferred outflow, liabilities, deferred inflow, and net position) to the prior year’s government-wide activities. The Statement of Net Position includes all assets and liabilities of the District using the full-accrual basis of accounting.

TABLE 2 - STATEMENT OF NET POSITION COMPARISON

	Governmental Activities		
	2017	2016	Net Change
ASSETS			
Current and other assets	\$174,519,029	\$186,816,005	\$ (12,296,976)
Net OPEB assets	128,433,096	121,125,640	7,307,456
Capital assets	186,025,693	166,308,462	19,717,231
Total Assets	488,977,818	474,250,107	14,727,711
DEFERRED OUTFLOWS OF RESOURCES	54,403,044	22,421,543	31,981,501
LIABILITIES			
Current liabilities	35,088,990	24,029,973	11,059,017
Long-term liabilities	400,223,172	355,854,594	44,368,578
Total Liabilities	435,312,162	379,884,567	55,427,595
DEFERRED INFLOWS OF RESOURCES	22,669,249	36,488,216	(13,818,967)
NET POSITION			
Net investment in capital assets	155,693,273	130,145,474	25,547,799
Restricted	56,311,668	66,985,424	(10,673,756)
Unrestricted	(126,605,490)	(116,832,031)	(9,773,459)
Total Net Position	\$ 85,399,451	\$ 80,298,867	\$ 5,100,584

The District’s combined net position was \$85,399,451 at June 30, 2017, as reflected in the table above. Of this amount (\$126,605,490) was unrestricted. Restricted net position is reported separately to show legal constrains from debt covenants and enabling legislation that limit the Governing Board’s ability to use that net position for day-to-day operations.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CONDENSED FINANCIAL INFORMATION (continued)

Table 3 – Government-Wide Statement of Activities Comparison provides a condensed and summarized comparison of the District’s current year government-wide (all funds) revenues, expenditures, and change in net position to the District’s prior-year financial activities.

TABLE 3 - GOVERNMENT-WIDE STATEMENT OF ACTIVITIES COMPARISON

	Governmental Activities		
	2017	2016	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 9,983,769	\$ 10,903,159	\$ (919,390)
Operating grants and contributions	75,625,966	56,955,847	18,670,119
General revenues			
Property taxes	159,460,434	153,009,999	6,450,435
Unrestricted federal and state aid	82,970,466	91,051,450	(8,080,984)
Other	4,332,455	4,670,002	(337,547)
Total Revenues	332,373,090	316,590,457	15,782,633
EXPENSES			
Instruction	198,107,235	189,431,807	8,675,428
Instruction-related services	47,720,423	45,989,121	1,731,302
Pupil services	34,269,219	33,954,223	314,996
General administration	11,085,785	11,606,360	(520,575)
Plant services	29,599,711	27,829,174	1,770,537
Ancillary and community services	2,130,779	2,012,580	118,199
Debt service	2,342,979	2,137,460	205,519
Other Outgo	2,016,375	3,195,551	(1,179,176)
Total Expenses	327,272,506	316,156,276	11,116,230
Transfers & special items	-	16,751,737	(16,751,737)
Change in net position	5,100,584	17,185,918	(12,085,334)
Net Position - Beginning	80,298,867	63,112,949	17,185,918
Net Position - Ending	\$ 85,399,451	\$ 80,298,867	\$ 5,100,584

The results of this year’s operations for the District as a whole are reported in the Statement of Activities. The table above takes the information from the Statement and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

The cost of all our governmental activities this year was \$327,272,506 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$159,460,434 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL POSITION ANALYSIS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$129,322,798, which is less than last year’s ending fund balance of \$154,132,344. The District’s General Fund had \$9,801,508 more in operating expenses than revenues for the year ended June 30, 2017. The District’s Special Reserve Fund for Capital Outlay Projects had \$2,108,581 more in operating expenses than revenues for the year ended June 30, 2017.

The instructional expenses reflect an increase due to a 2% salary increase retroactive to July 1, 2016. Additionally the \$16,751,737 reported as Transfers & special items in 2015-16 was related to a one-time property sale.

FUND ANALYSIS

Of the 14 funds that make up District operations, there are five funds of primary importance to users of the financial statements:

1. Fund 01 – General Fund
2. Fund 14 – Deferred Maintenance
3. Fund 21 – Building Fund – Measure S
4. Fund 40 – Special Reserve Fund for Capital Outlay Projects
5. Fund 71 - Retiree Benefit Fund

Each of these funds is discussed in summary fashion below along with top-level financial activities figures.

1. Fund 01 – General Fund

The General Fund is the chief operating fund of the District. It is used to account for the regular and ordinary operations of the District. Salaries, benefits, supplies, services and operating expenses, and capital outlay other than buildings and land, are accounted for in the District’s general fund. The General Fund is comprised of two components, restricted and unrestricted. Unrestricted revenues and expenditures make up the majority of the District’s day to day operations such as teacher salaries and benefits, supplies, utilities, repairs and general operations, etc. Restricted revenues and expenditures are accounted for separately and tied to distinctive state and federal programs; expenditures made with these program dollars must meet specific criteria and are usually targeted with specific program outcomes in mind.

Provided below in Table 4 – General Fund Comparison, is summarized comparison of the District’s current year general fund operating revenues, expenditures, and change in ending fund balance. This information is presented in condensed format similar to how the District reports this information to the state; this is the format used by the District on a daily basis.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FUND ANALYSIS (continued)

TABLE 4 - GENERAL FUND COMPARISON

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
Revenues	\$278,519,905	\$281,438,014	\$ (2,918,109)
Expenditures	288,321,413	267,942,599	20,378,814
Excess (Deficiency)	(9,801,508)	13,495,415	(23,296,923)
Transfers Out	(6,523,107)	(14,174,983)	7,651,876
Net Increase (Decrease) in Fund Balance	<u>\$ (16,324,615)</u>	<u>\$ (679,568)</u>	<u>\$ (15,645,047)</u>
Beginning Fund Balance	\$ 79,290,185	\$ 79,969,753	\$ (679,568)
Net Increase (Decrease) in Fund Balance	(16,324,615)	(679,568)	(15,645,047)
Ending Fund Balance	<u>\$ 62,965,570</u>	<u>\$ 79,290,185</u>	<u>\$ (16,324,615)</u>
<u>Components of Ending Fund Balance</u>			
Revolving Cash, Stores, Prepaid	\$ 1,781,030	\$ 1,689,591	\$ 91,439
Restricted	1,427,970	4,874,197	(3,446,227)
Assignments	14,301,507	15,875,257	(1,573,750)
3% Reserve for Economic Uncertainty	8,845,336	8,463,528	381,808
Unassigned/Unappropriated Amount	36,609,727	48,387,612	(11,777,885)
Ending Fund Balance	<u>\$ 62,965,570</u>	<u>\$ 79,290,185</u>	<u>\$ (16,324,615)</u>

The reduction in revenues is primarily due to declining enrollment. The District has a rich history of appropriately responding to reductions in revenues by implementing corresponding reductions in expenditures. Consequently, on June 8, 2017, the Board of Education took action towards cost containment strategies to balance the budget and contain deficit spending, related to declining enrollment and the continued increases to employer contributions to retirement systems, CalSTRS and CalPERS. The financial plan included reductions over a 3-year period of approximately \$28 million.

Of the \$15.6M net change in ending fund balance, approximately \$8M was due to the transfer of one-time Mandated Cost revenues to Fund 40 in order to provide multiple year funding for deferred maintenance and to remove one-time funding from the general fund in order to compare on going income with ongoing expenses.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FUND ANALYSIS (continued)

2. Fund 14 – Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for LEA's contributions for deferred maintenance purposes (Education Code sections 17582-17587).

The principal revenue in this fund is Local Control Funding Formula Sources and Interfund Transfers In. Expenditures in this Fund are for major repairs or replacements, and any other maintenance item approved by the State Allocation Board.

The Board of Education has made a commitment to fund deferred maintenance in order to maintain the condition of our facilities. The Board approved the transfer of 1.5% of the total General Fund Expenditures or approximately \$4 million to Fund 14 to cover deferred maintenance projects (roofs, parking lots, painting, flooring, heating/cooling, restroom renovation, field improvements). School districts no longer receive matching funds from the state for the Deferred Maintenance Program, therefore General Fund monies are the only source to address the most critical health and safety issues.

Revenues, expenditures, and change in ending fund balance for Fund 14 is provided in Table 5 – Other Primary Funds.

3. Fund 21 – Measure S General Obligation Bond Fund

On November 10, 2016, the Orange Unified School District community approved Measure S. Measure S authorizes the District to issue tax-exempt general obligation bonds (GOBs) in an amount up to \$288 million. Bonds are scheduled to be issued in two series of approximately \$144 million each, the first being Series A. The District anticipates selling its first series of bonds in the fall of 2018. The District will use the proceeds of the bonds to for capital improvement projects at the District's four high schools to include:

- Retrofitting older school buildings to protect against the effects of earthquakes and reduce the risk of damage or injury during natural disasters.
- Updating classrooms, science labs, career-training facilities, libraries and computer systems to keep pace with modern technology.
- Modernization of aging science labs and equipment.

There were no significant expenditures made from Fund 21 and the revenues, expenditures, and change in ending fund balance for Fund 21 is provided below in Table 5 – Other Primary Funds. Information about the District's capital facilities program can be found on the District's website at the following link:

<http://www.orangeusd.k12.ca.us/measureS/index.asp>

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FUND ANALYSIS (continued)

4. Fund 40 – Special Reserve Fund for Capital Outlay Projects

As previously stated, the District anticipates selling its first series of bonds in the fall of 2018. The District will be using Fund 40 to finance the initial planning, design, and construction startup costs for Measure S capital expenditures. Measure S allowable expenditures from Fund 40 will be reimbursed from Fund 21 once proceeds from the first series of bonds are received.

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes. This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to Fund 25, 35, or 49.

The current fund balance reflects the proceeds from the sale of real property of \$17,900,000 for Riverdale Elementary Schools, and the transfers authorized by the governing board from the General Fund of One-Time Mandated Cost funds of approximately \$19,456,748.

In 2016-17 the expense in Fund 40 include the Prop 39 Energy Projects of \$5,304,312, the Data Center and Technology infrastructure (E-rate) upgrades of \$2,231,748.

Revenues, expenditures, and change in ending fund balance for Fund 40 is provided below in Table 5 – Other Primary Funds. Additional information about the District's capital facilities program can be found on the District's website at the following link:

<http://www.orangeusd.k12.ca.us/measureS/index.asp>

5. Fund 71 – Retiree Benefit Fund

The Retiree Benefit Fund exists to account separately for amounts held in trust from salary reduction agreements, other contributions for employees' retirement benefit payments, or both. The District has taken a proactive approach to funding Retiree Benefits by setting up an Other Postemployment Benefits (OPEB) trust.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FUND ANALYSIS (continued)

Provided in Table 5 – Other Primary Funds is summary information combining current fiscal year revenues, expenditures, and change in ending fund balance for Funds 14, 21, 40, and 71 into one simplified chart.

TABLE 5 - OTHER PRIMARY FUNDS

	Fund 14	Fund 21	Fund 40	Fund 71
Revenues	\$ 4,329,705	\$ 453	\$ 6,025,993	\$ 4,782,124
Expenditures	5,535,275	1,954,606	8,134,574	4,902,027
Excess (Deficiency)	(1,205,570)	(1,954,153)	(2,108,581)	(119,903)
Other Financing Sources (Uses)	-	4,000,000	(4,769,156)	-
Net Increase (Decrease) in Fund Balance	\$ (1,205,570)	\$ 2,045,847	\$ (6,877,737)	\$ (119,903)
Beginning Fund Balance/Net Position	\$ 9,504,959	\$ -	\$ 43,465,597	\$ 21,006,951
Net Increase (Decrease) in Fund Balance	(1,205,570)	2,045,847	(6,877,737)	(119,903)
Ending Fund Balance/Net Position	\$ 8,299,389	\$ 2,045,847	\$ 36,587,860	\$ 20,887,048

BUDGET VARIATION ANALYSIS

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District’s financial projections and current budget based on State and local financial information.

The significant variations between the 2016-17 Estimated Actuals presented in June 2017 and the Unaudited Actuals presented in September 2017 include 2% salary increases to Certificated and Leadership groups effective July 1, 2016 approved by the Board of Education on July 27, 2017. Also, unexpended revenues of restricted Federal and State grants of approximately \$3.5M were deferred into the next year and corresponding expenditures under Books/Supplies and Services were reduced accordingly.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ACTIVITY

Describe capital asset and long-term debt activity during the year including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

Capital Assets

Table 6 – Capital Assets provides a simplified comparison of the District’s current year assets to the prior year.

TABLE 6 - CAPITAL ASSETS

	Governmental Activities		
	2017	2016	Net Change
CAPITAL ASSETS			
Land	\$ 19,082,424	\$ 19,082,424	\$ -
Construction in progress	23,774,659	2,951,352	20,823,307
Land improvements	10,764,671	10,764,671	-
Buildings & improvements	203,320,881	200,487,280	2,833,601
Furniture & equipment	15,166,832	14,229,490	937,342
Accumulated depreciation	(86,083,774)	(81,206,755)	(4,877,019)
Total Long-term Liabilities	\$186,025,693	\$166,308,462	\$ 19,717,231

As of June 30, 2017, the District had invested \$186,025,693 in a broad range of capital assets, net of accumulated depreciation. During the 2016-17 fiscal year, the District completed construction of Data Center and technology infrastructure upgrades. The District also began Prop 39 Energy Project upgrades at various sites. The construction in progress also includes the gym/science building at El Rancho Charter Middle School.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ACTIVITY (continued)

Debt Activity – Long Term Obligations

Table 7 – Long-Term Obligations summarizes and compares the District's current year debt to the prior year.

TABLE 7 - LONG TERM OBLIGATIONS

	Governmental Activities		
	2017	2016	Net Change
LONG-TERM OBLIGATIONS			
Total certificates of participation	\$ 24,848,145	\$ 27,837,063	\$ (2,988,918)
Retirement health benefits funding bonds	80,865,000	82,965,000	(2,100,000)
Capital leases	7,975,704	8,835,162	(859,458)
Compensated absences	4,293,789	4,366,672	(72,883)
Claims liability	5,051,000	4,272,000	779,000
Net pension liability	283,086,233	233,527,072	49,559,161
Less: current portion of long-term debt	(5,896,699)	(5,948,375)	51,676
Total Long-term Liabilities	\$400,223,172	\$355,854,594	\$ 44,368,578

Payments on certificates of participation are made in the Debt Service Fund. Payments for the retirement health benefits funding bonds as well as capital lease obligations are made in the General Fund. Payments for compensated absences are typically paid by the fund for which the employee worked. Payments for claims liability are made from the Internal Service Fund. More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CURRENT AND EMERGING ISSUES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The District does not qualify for concentration funding. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

State revenues are estimated to increase modestly in 2017-18 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2007/08 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2017. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. The District is projected to decline by approximately 690 pupils per year, for the next 3 years. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2017-18 fiscal year.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide interested parties with a general overview of the District's finances. If you have specific questions about this report or need additional financial information please contact:

Colleen Patterson
Interim Assistant Superintendent, Business Services
(714) 628-4479
cpatterson@orangeusd.org

Jenny Delgado
Administrative Director, Business Services
(714) 628-4479
jdelgado@orangeusd.org

Additional information about the District's financial operations can be found on the District's Business Services Division webpage at the following link:

<http://www.orangeusd.k12.ca.us/business/index.asp>

ORANGE UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 164,949,780
Accounts receivable	7,814,250
Inventory	166,276
Prepaid expenses	1,588,723
Net OPEB assets	128,433,096
Capital assets, not depreciated	42,857,083
Capital assets, net of accumulated depreciation	143,168,610
Total Assets	488,977,818
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	53,957,462
Deferred amount on refunding	445,582
Total Deferred Outflows of Resources	54,403,044
LIABILITIES	
Accrued liabilities	27,248,936
Unearned revenue	1,943,355
Long-term liabilities, current portion	5,896,699
Long-term liabilities, non-current portion	400,223,172
Total Liabilities	435,312,162
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	22,669,249
Total Deferred Inflows of Resources	22,669,249
NET POSITION	
Net investment in capital assets	155,693,273
Restricted:	
Capital projects	48,256,519
Debt service	5,668,298
Educational programs	2,226,686
All others	160,165
Unrestricted	(126,605,490)
Total Net Position	\$ 85,399,451

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

**ORANGE UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 198,107,235	\$ 1,513,560	\$ 46,149,651	\$ (150,444,024)
Instruction-related services				
Instructional supervision and administration	16,135,332	69,012	5,507,817	(10,558,503)
Instructional library, media, and technology	7,759,800	890	429,968	(7,328,942)
School site administration	23,825,291	319,646	1,806,920	(21,698,725)
Pupil services				
Home-to-school transportation	9,378,590	-	10,570	(9,368,020)
Food services	8,142,163	1,498,160	6,157,926	(486,077)
All other pupil services	16,748,466	37,075	3,783,612	(12,927,779)
General administration				
Centralized data processing	1,956,901	-	8,227	(1,948,674)
All other general administration	9,128,884	116,165	1,486,264	(7,526,455)
Plant services	29,599,711	2,178,813	6,671,268	(20,749,630)
Ancillary services	1,985,187	-	128,254	(1,856,933)
Community services	145,592	-	-	(145,592)
Interest on long-term debt	2,342,979	-	-	(2,342,979)
Other Outgo	2,016,375	4,250,448	3,485,489	5,719,562
Total Governmental Activities	\$ 327,272,506	\$ 9,983,769	\$ 75,625,966	(241,662,771)
General revenues				
Taxes and subventions				
				158,181,518
				1,278,916
				82,970,466
				907,505
				797,882
				2,627,068
				246,763,355
CHANGE IN NET POSITION				
				5,100,584
Net Position - Beginning				
				80,298,867
Net Position - Ending				
				\$ 85,399,451

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

**ORANGE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 87,334,977	\$ 31,931,195	\$ 29,523,818	\$ 148,789,990
Accounts receivable	6,845,523	35,215	909,531	7,790,269
Due from other funds	856,319	6,582,982	5,617,514	13,056,815
Stores inventory	92,307	-	73,969	166,276
Prepaid expenditures	1,588,723	-	-	1,588,723
Total Assets	\$ 96,717,849	\$ 38,549,392	\$ 36,124,832	\$ 171,392,073
LIABILITIES				
Accrued liabilities	\$ 20,239,484	\$ 1,035,437	\$ 5,292,799	\$ 26,567,720
Due to other funds	11,731,165	926,095	900,940	13,558,200
Unearned revenue	1,781,630	-	161,725	1,943,355
Total Liabilities	33,752,279	1,961,532	6,355,464	42,069,275
FUND BALANCES				
Nonspendable	1,781,030	-	108,969	1,889,999
Restricted	1,427,970	37,037,226	20,072,156	58,537,352
Committed	-	-	8,299,389	8,299,389
Assigned	14,301,507	-	1,288,854	15,590,361
Unassigned	45,455,063	(449,366)	-	45,005,697
Total Fund Balances	62,965,570	36,587,860	29,769,368	129,322,798
Total Liabilities and Fund Balances	\$ 96,717,849	\$ 38,549,392	\$ 36,124,832	\$ 171,392,073

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

**ORANGE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds \$ 129,322,798

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

Capital assets:

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

Capital assets	\$ 272,109,467	
Accumulated depreciation	<u>(86,083,774)</u>	186,025,693

Other postemployment benefits:

In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The other postemployment benefit net asset is a result of accumulated plant assets that are an irrevocable contribution and dedicated to providing benefits to retirees, and current year contributions exceeding the annual required contribution.

128,433,096

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

445,582

Unmatured interest on long-term debt:

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

(179,837)

(continued on the next page)

**ORANGE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION, continued
JUNE 30, 2017**

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total certificates of participation	\$ 24,848,145	
Retirement health benefits funding bonds	80,865,000	
Capital leases	7,975,704	
Compensated absences	4,293,789	
Net pension liability	<u>283,086,233</u>	(401,068,871)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 53,957,462	
Deferred inflows of resources related to pensions	<u>(22,669,249)</u>	31,288,213

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

11,132,777

Total Net Position - Governmental Activities

\$ 85,399,451

**ORANGE 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				
LCFF sources	\$ 217,259,038	\$ -	\$ 12,897,322	\$ 230,156,360
Federal sources	13,015,158	-	6,128,535	19,143,693
Other state sources	41,979,933	4,819,897	2,742,157	49,541,987
Other local sources	6,265,776	1,206,096	14,975,437	22,447,309
Total Revenues	278,519,905	6,025,993	36,743,451	321,289,349
EXPENDITURES				
Current				
Instruction	178,582,079	-	11,239,198	189,821,277
Instruction-related services				
Instructional supervision and administration	15,201,107	-	368,155	15,569,262
Instructional library, media, and technology	7,372,942	-	203,263	7,576,205
School site administration	20,447,906	-	2,589,275	23,037,181
Pupil services				
Home-to-school transportation	9,990,728	-	102,261	10,092,989
Food services	-	-	8,008,457	8,008,457
All other pupil services	15,705,301	-	380,337	16,085,638
General administration				
Centralized data processing	1,984,731	-	-	1,984,731
All other general administration	7,970,577	-	1,060,863	9,031,440
Plant services				
Facilities acquisition and maintenance	-	8,134,574	15,734,209	23,868,783
Ancillary services	1,922,657	-	270	1,922,927
Community services	140,351	-	-	140,351
Transfers to other agencies	1,814,554	-	138,166	1,952,720
Debt service				
Principal	2,959,458	-	2,988,918	5,948,376
Interest and other	1,634,232	-	677,246	2,311,478
Total Expenditures	288,321,413	8,134,574	49,642,908	346,098,895
Excess (Deficiency) of Revenues				
Over Expenditures	(9,801,508)	(2,108,581)	(12,899,457)	(24,809,546)
Other Financing Sources (Uses)				
Transfers in	-	6,625,262	11,394,729	18,019,991
Transfers out	(6,523,107)	(11,394,418)	(102,466)	(18,019,991)
Net Financing Sources (Uses)	(6,523,107)	(4,769,156)	11,292,263	-
NET CHANGE IN FUND BALANCE				
	(16,324,615)	(6,877,737)	(1,607,194)	(24,809,546)
Fund Balance - Beginning	79,290,185	43,465,597	31,376,562	154,132,344
Fund Balance - Ending	\$ 62,965,570	\$ 36,587,860	\$ 29,769,368	\$ 129,322,798

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

**ORANGE 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**

Net Change in Fund Balances - Governmental Funds \$ (24,809,546)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$	24,594,250	
Depreciation expense:		(4,877,019)	19,717,231

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

5,948,376

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(63,655)

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(31,501)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

72,883

(continued on the next page)

**ORANGE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2017**

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 7,307,456

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (3,695,038)

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 654,378

Change in Net Position of Governmental Activities	\$	5,100,584
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ORANGE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 16,159,790
Accounts receivable	23,981
Due from other funds	109,859
Total current assets	<u>16,293,630</u>
Total Assets	<u>16,293,630</u>
LIABILITIES	
Current liabilities	
Accrued liabilities	109,422
Due to other funds	431
Total current liabilities	<u>109,853</u>
Non-current liabilities	<u>5,051,000</u>
Total Liabilities	<u>5,160,853</u>
NET POSITION	
Restricted	<u>11,132,777</u>
Total Net Position	<u>\$ 11,132,777</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 4,018,679
Total operating revenues	<u>4,018,679</u>
OPERATING EXPENSE	
Salaries and benefits	274,892
Supplies and materials	448
Professional services	3,213,821
Total operating expenses	<u>3,489,161</u>
Operating income/(loss)	<u>529,518</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	124,860
Total non-operating revenues/(expenses)	<u>124,860</u>
CHANGE IN NET POSITION	654,378
Net Position - Beginning	10,478,399
Net Position - Ending	<u>\$ 11,132,777</u>

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

**ORANGE 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 received (paid) from assessments made to (from) other funds	\$ 4,008,261
Cash payments for payroll, insurance, and operating costs	(2,680,850)
Net cash provided by (used for) operating activities	<u>1,327,411</u>
Cash flows from investing activities	
Interest received	124,860
Net cash provided by (used for) investing activities	<u>124,860</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,452,271</u>
 CASH AND CASH EQUIVALENTS	
Beginning of year	14,707,519
End of year	<u>\$ 16,159,790</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ 529,518
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(15,128)
(Increase) decrease in due from other funds	4,710
Increase (decrease) in accounts payable	29,311
Increase (decrease) in claims liabilities	779,000
Net cash provided by (used for) operating activities	<u>\$ 1,327,411</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Retiree Benefit</u>	<u>Student Body</u>
	<u>Fund</u>	<u>Fund</u>
ASSETS		
Cash and investments	\$ 20,477,582	\$ 1,846,437
Accounts receivable	17,637	-
Due from other funds	391,957	-
Total Assets	<u>20,887,176</u>	<u>\$ 1,846,437</u>
LIABILITIES		
Accrued liabilities	\$ 128	\$ -
Due to student groups	-	1,846,437
Total Liabilities	<u>128</u>	<u>\$ 1,846,437</u>
NET POSITION		
Restricted for postemployment benefits other than pensions	20,887,048	
Total Net Position	<u>\$ 20,887,048</u>	

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

ORANGE UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Trust Funds</u>
	<u>Retiree Benefit</u>
	<u>Fund</u>
ADDITIONS	
Contributions	\$ 4,601,922
Investment earnings	180,202
Total Additions	<u>4,782,124</u>
DEDUCTIONS	
Benefit payments	<u>4,902,027</u>
Total Deductions	<u>4,902,027</u>
CHANGE IN NET POSITION	(119,903)
Net Position - Beginning, as Restated	21,006,951
Net Position - Ending	<u>\$ 20,887,048</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity**

The Orange Unified School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. **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.

The Orange Unified School Financing Corporation's (the Corporation) financial activity is presented in the financial statements as the Debt Service Fund and the Special Reserve Fund for Capital Outlay Projects. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. **Basis of Presentation**

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. 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 of 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.

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

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

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 District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Charter Schools Special Revenue Fund: This fund may be used by authorizing District's to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b] and 52501.5[a]*).

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be 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: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund: This 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. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (Education Code Section 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (Education Code Section 41003).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

County School Facilities Fund: This 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), or the 2004 State School Facilities Fund (Proposition 55) 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 Projects Fund for Blended Component Units: This fund 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: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Debt Service Fund: This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Proprietary Funds

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. 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.

Retiree Benefit Fund: This fund exists to account separately for amounts held in trust from salary reduction agreements, other irrevocable contributions for employees' retirement benefit payments, or both.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net 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. The net position should be reported as restricted when constraints placed on its use 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 results from special revenue funds and the restrictions on their use.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus (continued)**

Government-Wide, Proprietary, and Fiduciary Financial Statements (continued)

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school 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 school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the 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 that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Accounting – Measurement Focus (*continued*)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

Investments 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 and State investment pools are determined by the program sponsor.

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$50,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	20 – 50 years
Improvements/Infrastructure	5 – 50 years
Equipment	5 – 20 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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 resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

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 funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Premiums and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

Fund Balance (*continued*)

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. 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 columns of the statement of activities.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. Budgetary Data

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

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

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard’s primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard’s primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 80 for the year ended June 30, 2017.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard’s primary objective is to address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The majority of this Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 82 for the year ended June 30, 2017.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental	Internal Service	Total	
	Funds	Funds	Governmental	Fiduciary
			Activities	Funds
Investment in county treasury	\$ 146,217,658	\$ 15,983,999	\$ 162,201,657	\$ 20,477,582
Cash on hand and in banks	1,455,313	175,791	1,631,104	1,846,437
Cash with fiscal agent	982,019	-	982,019	-
Cash in revolving fund	135,000	-	135,000	-
Total cash and investments	\$ 148,789,990	\$ 16,159,790	\$ 164,949,780	\$ 22,324,019

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Orange County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

D. 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 manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$182,387,158 and an amortized book value of \$182,679,239. The average weighted maturity for this pool is 367 days.

E. 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. The investments in the County Treasury are not required to be rated. As of June 30, 2017, the pooled investments in the County Treasury were rated AAA.

F. 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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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 reasonable 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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value (continued)

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 at June 30, 2017 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 182,387,158
Total fair market value of investments	<u>\$ 182,387,158</u>

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Activities</u>	<u>Total Fiduciary</u>
Federal Government						
Categorical aid	\$ 2,063,670	\$ -	\$ 408,883	\$ -	\$ 2,472,553	\$ -
State Government						
Categorical aid	802,688	-	170,859	-	973,547	-
Lottery	2,471,226	-	107,121	-	2,578,347	-
Local Government						
Other local sources	1,507,939	35,215	222,668	23,981	1,789,803	17,637
Total	<u>\$ 6,845,523</u>	<u>\$ 35,215</u>	<u>\$ 909,531</u>	<u>\$ 23,981</u>	<u>\$ 7,814,250</u>	<u>\$ 17,637</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 19,082,424	\$ -	\$ -	\$ 19,082,424
Construction in progress	2,951,352	23,656,908	2,833,601	23,774,659
Total Capital Assets not Being Depreciated	22,033,776	23,656,908	2,833,601	42,857,083
Capital assets being depreciated				
Land improvements	10,764,671	-	-	10,764,671
Buildings & improvements	200,487,280	2,833,601	-	203,320,881
Furniture & equipment	14,229,490	937,342	-	15,166,832
Total Capital Assets Being Depreciated	225,481,441	3,770,943	-	229,252,384
Less Accumulated Depreciation				
Land improvements	9,728,684	109,756	-	9,838,440
Buildings & improvements	61,773,383	3,557,689	-	65,331,072
Furniture & equipment	9,704,688	1,209,574	-	10,914,262
Total Accumulated Depreciation	81,206,755	4,877,019	-	86,083,774
Governmental Activities				
Capital Assets, net	\$ 166,308,462	\$ 22,550,832	\$ 2,833,601	\$ 186,025,693

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

Governmental Activities	
Instruction	\$ 2,981,095
Instructional supervision and administration	161,453
Instructional library, media, and technology	87,805
School site administration	347,500
Home-to-school transportation	145,201
Food services	152,639
All other pupil services	199,857
Centralized data processing	27,041
All other general administration	128,122
Plant services	610,828
Ancillary services	30,037
Community services	5,441
	<u>\$ 4,877,019</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2017 were as follows:

Due To Other Funds	Due From Other Funds					Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Retiree Benefit Trust Fund	
General Fund	\$ -	\$ 6,522,796	\$ 4,741,783	\$ 93,617	\$ 372,969	\$ 11,731,165
Special Reserve Fund for Capital Outlay Projects	57,164	-	868,931	-	-	926,095
Non-Major Governmental Funds	799,129	60,186	6,800	16,242	18,583	900,940
Internal Service Fund	26	-	-	-	405	431
Total Due From Other Funds	\$ 856,319	\$ 6,582,982	\$ 5,617,514	\$ 109,859	\$ 391,957	\$ 13,558,631

The General Fund owed the Special Reserve Fund for Capital Outlay Projects for mandated cost reimbursements and data center.	\$ 6,522,796
The General Fund owed the Non-Major Charter Schools Fund for P2 in-lieu of property taxes.	516,224
The General Fund owed the Non-Major Adult Education Fund for indirect cost and equipment purchase.	305
The General Fund owed the Non-Major Child Development Fund for indirect costs.	1,047
The General Fund owed the Non-Major Cafeteria Fund for ice machine repair.	191
The General Fund owed the Non-Major Deferred Maintenance Fund for district match and LCFF transfer.	4,224,016
The General Fund owed the Internal Service Fund for employee benefits.	93,617
The General Fund owed the Retiree Benefits Trust Fund for retirement benefits.	372,969
The Special Reserve Fund for Capital Outlay Projects owed the General Fund for data center.	57,164
The Special Reserve Fund for Capital Outlay Projects owed the Non-Major Charter Schools Fund for construction advancement.	866,021
The Special Reserve Fund for Capital Outlay Projects owed the Non-Major Capital Projects Fund for Blended Component Units for energy conservation expense.	2,910
The Non-Major Charter Schools Fund owed the General Fund for software reimbursement, waste service, special education, oversight fee, payroll taxes.	386,718
The Non-Major Adult Education Fund owed the General Fund for payroll taxes.	938
The Non-Major Child Development Fund owed the General Fund for postage, bank charges, payroll taxes, and indirect costs.	84,769
The Non-Major Cafeteria Fund owed the General Fund for insurance, vehicle maintenance, postage, payroll taxes, bank charges, and indirect costs.	308,642
The Non-Major Deferred Maintenance Fund owed the General Fund for emergency school site repairs.	18,062
The Non-Major Charter Schools Fund owed the Special Reserve Fund for Capital Outlay Projects for interest on construction advancement.	45,909
The Non-Major Deferred Maintenance Fund owed the Special Reserve Fund for Capital Outlay Projects for Villa Park Elementary's historic building demolition.	1,152
The Non-Major Capital Projects Fund for Blended Component Units owed the Special Reserve Fund for Capital Outlay Projects for DSA fees.	13,125
The Non-Major Deferred Maintenance Fund owed the Capital Projects Fund for Blended Component Units for site paving.	6,800
The Non-Major Charter Schools Fund owed the Internal Service Fund for employee benefits.	1,693
The Non-Major Child Development Fund owed the Internal Service Fund for employee benefits.	8,131
The Non-Major Cafeteria Fund owed the Internal Service Fund for employee benefits.	6,418
The Non-Major Charter Schools Fund owed the Retiree Benefits Trust Fund for retirement benefits.	1,892
The Non-Major Child Development Fund owed the Retiree Benefits Trust Fund for retirement benefits.	9,315
The Non-Major Cafeteria Fund owed the Retiree Benefits Trust Fund for retirement benefits.	7,376
The Internal Service Fund owed the General Fund for bank charges and payroll taxes.	26
The Internal Service Fund owed the Retiree Benefits Trust Fund for retirement benefits.	405
Total	\$ 13,558,631

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>		
	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
General Fund	\$ 6,522,796	\$ 311	\$ 6,523,107
Special Reserve Fund for Capital Outlay Projects	-	11,394,418	11,394,418
Non-Major Governmental Funds	102,466	-	102,466
Total Interfund Transfers	\$ 6,625,262	\$ 11,394,729	\$ 18,019,991

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for mandated cost reimbursements and data center.	\$ 6,522,796
The General Fund transferred to the Non-Major Cafeteria Fund for use taxes.	311
The Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Charter Schools Fund for construction advancement.	7,394,418
The Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Building Fund for construction expenses.	4,000,000
The Non-Major Capital Facilities Fund transferred to the Special Reserve Fund for Capital Outlay Projects for Kelly stadium modernization.	102,466
Total	\$ 18,019,991

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 consisted of the following:

	<u>General Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>District-Wide</u>	<u>Total Governmental Activities</u>	<u>Total Fiduciary</u>
Payroll	\$ 12,503,353	\$ -	\$ 930,189	\$ 19,625	\$ -	\$ 13,453,167	\$ -
Construction	-	1,032,710	2,875,961	-	-	3,908,671	-
Vendors payable	4,040,187	2,727	1,385,701	89,797	-	5,518,412	128
Unmatured interest	-	-	-	-	179,837	179,837	-
Other liabilities	3,695,944	-	100,948	-	-	3,796,892	-
Due from fiduciary funds	-	-	-	-	391,957	391,957	-
Total	\$ 20,239,484	\$ 1,035,437	\$ 5,292,799	\$ 109,422	\$ 571,794	\$ 27,248,936	\$ 128

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 119,029	\$ -	\$ 119,029
State categorical sources	1,310,346	-	1,310,346
Local sources	352,255	161,725	513,980
Total	\$ 1,781,630	\$ 161,725	\$ 1,943,355

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 consisted of the following:

	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Balance Due In One Year
Governmental Activities					
Certificates of participation	\$ 27,837,063	\$ -	\$ 2,988,918	\$ 24,848,145	\$ 2,889,920
Retirement health benefits funding bonds	82,965,000	-	2,100,000	80,865,000	2,100,000
Capital leases	8,835,162	-	859,458	7,975,704	906,779
Compensated absences	4,366,672	-	72,883	4,293,789	-
Claims liability	4,272,000	779,000	-	5,051,000	-
Net pension liability	233,527,072	49,559,161	-	283,086,233	-
Total	\$ 361,802,969	\$ 50,338,161	\$ 6,021,259	\$ 406,119,871	\$ 5,896,699

Payments on certificates of participation are made in the Debt Service Fund. Payments for the retirement health benefits funding bonds are made in the General Fund. Payments for capital lease obligations are made in the General Fund. Payments for compensated absences are typically paid by the fund for which the employee worked. Payments for claims liability are made from the Internal Service Fund.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

A. Certificates of Participation

On September 27, 2012, the Orange Schools Financing Corporation issued the 2012 Refunding Certificates of Participation in the amount of \$38,069,161. The certificates have a final maturity to occur on June 1, 2024, with an interest rate of 2.50 percent. Proceeds from the sale of the certificates were used to provide for the current refunding of the residual balance of the District’s 2003 Certificates of Participation. The refunding resulted in a cumulative cash flow savings of \$3,384,944 over the life of the new debt and an economic gain of \$9,437,500 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.50 percent. As of June 30, 2017, the principal balance outstanding was \$24,848,145.

The certificates mature through 2024 as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 2,889,920	\$ 603,142	\$ 3,493,062
2019	3,095,010	529,612	3,624,622
2020	3,311,831	450,881	3,762,712
2021	3,534,790	366,692	3,901,482
2022	3,761,316	276,907	4,038,223
2023 - 2024	8,255,278	261,052	8,516,330
Total	\$ 24,848,145	\$ 2,488,286	\$ 27,336,431

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

B. Retirement Health Benefits Funding Bonds

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds (the Bonds). The Bonds were issued at an aggregate price of \$93,763,635 (representing the principal amount of \$94,765,000 less issuance costs of \$1,001,365). The Bonds have a final maturity to occur on May 1, 2043, with a variable interest rate (initially at 3.562 percent). Proceeds from the sale of bonds were used to refinance a portion of the District’s obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to certain labor contracts. As of June 30, 2017, the principal balance of \$80,865,000 remained outstanding.

The bonds mature through 2043 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,100,000	\$ 1,684,162	\$ 3,784,162
2019	2,000,000	1,640,504	3,640,504
2020	2,000,000	1,598,760	3,598,760
2021	1,900,000	1,557,190	3,457,190
2022	2,700,000	1,516,142	4,216,142
2023 - 2027	13,900,000	6,722,175	20,622,175
2028 - 2032	15,400,000	5,237,654	20,637,654
2033 - 2037	20,200,000	3,413,442	23,613,442
2038 - 2042	18,100,000	1,306,935	19,406,935
2043	2,565,000	49,075	2,614,075
Total	\$ 80,865,000	\$ 24,726,039	\$ 105,591,039

C. Capital Leases

The District entered into various capital leases with options to purchase for school buses, vans, computers, and energy retrofit equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The capital leases have minimum lease payments as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
2018	\$ 1,247,066
2019	971,183
2020	894,611
2021	918,285
2022	943,144
2023 - 2027	4,793,088
2028	210,556
Total minimum lease payments	9,977,933
Less amount representing interest	(2,002,229)
Present value of minimum lease payments	\$ 7,975,704

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – LONG-TERM DEBT (continued)

D. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2017 amounted to \$4,293,789. This amount is included as part of long-term liabilities in the government-wide financial statements.

E. Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2017, amounted to \$5,051,000, using a discount factor of two percent.

F. Net Pension Liability

The District's beginning net pension liability was \$233,527,072 and increased by \$49,559,161 during the year ended June 30, 2017. The ending net pension liability at June 30, 2017 was \$283,086,233. See Note 11 for additional information regarding the net pension liability.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2017:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	\$ 100,000	\$ -	\$ 35,000	\$ 135,000
Stores inventory	92,307	-	73,969	166,276
Prepaid expenditures	1,588,723	-	-	1,588,723
Total non-spendable	<u>1,781,030</u>	<u>-</u>	<u>108,969</u>	<u>1,889,999</u>
Restricted				
Educational programs	1,427,970	-	798,716	2,226,686
Capital projects	-	37,037,226	13,265,140	50,302,366
Debt service	-	-	5,848,135	5,848,135
All others	-	-	160,165	160,165
Total restricted	<u>1,427,970</u>	<u>37,037,226</u>	<u>20,072,156</u>	<u>58,537,352</u>
Committed				
Other commitments	-	-	8,299,389	8,299,389
Total committed	<u>-</u>	<u>-</u>	<u>8,299,389</u>	<u>8,299,389</u>
Assigned				
Non-resident tuition	84,295	-	-	84,295
School site carryover	214,390	-	-	214,390
School site/department donations	1,015,792	-	-	1,015,792
Credential support contracts	33,962	-	-	33,962
Medi-Cal Administrative Activities	142,311	-	-	142,311
FY18-FY21 STRS/PERS increases	12,712,850	-	-	12,712,850
School site lottery	97,907	-	-	97,907
El Rancho Foundation	-	-	704	704
Building fund debt service	-	-	316,286	316,286
Reserve for economic uncertainties	-	-	971,864	971,864
Total assigned	<u>14,301,507</u>	<u>-</u>	<u>1,288,854</u>	<u>15,590,361</u>
Unassigned				
Reserve for economic uncertainties	8,845,336	-	-	8,845,336
Remaining unassigned	36,609,727	(449,366)	-	36,160,361
Total unassigned	<u>45,455,063</u>	<u>(449,366)</u>	<u>-</u>	<u>45,005,697</u>
Total	<u>\$ 62,965,570</u>	<u>\$ 36,587,860</u>	<u>\$ 29,769,368</u>	<u>\$ 129,322,798</u>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three percent of General Fund expenditures and other financing uses.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligibility for retiree health benefits and the District's financial contribution varies by employee group and when an employee was hired. Benefits will continue for these employees according to their retiree group. The District has created a Retirement Board of Authority to oversee and run the Futuris Trust. Benefit Trust Company is the qualified Discretionary Trustee for asset and fiduciary management and investment policy development. Keenan & Associates is the Program Coordinator for the Futuris Trust providing oversight of the Futuris Program and guidance to the District. As described in Note 15, the District's Futuris Trust OPEB long-term investment fund is no longer reported in the District's Retiree Benefits Fund in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Audited financial statements of the Futuris Trust OPEB long-term investment fund can be obtained from the District.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	926
Active plan members	1,422
Total*	<u>2,348</u>
 Number of participating employers	 1

*As of March 1, 2017 actuarial study

B. Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (OUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, OUEA, CSEA and the unrepresented groups.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Asset

The District’s annual 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 asset to the Plan:

Annual required contribution	\$ 3,059,309
Interest on net OPEB asset	(7,025,287)
Adjustment to annual required contribution	1,260,444
Annual OPEB cost (expense)	<u>(2,705,534)</u>
Contributions made	<u>(4,601,922)</u>
Increase (decrease) in net OPEB asset	7,307,456
Net OPEB asset, beginning of the year	121,125,640
Net OPEB asset, end of the year	<u>\$ 128,433,096</u>

To pre-fund the net OPEB asset shown above, the District issued retirement health benefits funding bonds with an outstanding liability balance at June 30, 2017 of \$80,865,000, see Note 8 for further information.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for the year ended June 30, 2017 and the preceding two years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Asset</u>
2017	\$ (2,705,534)	170%	\$ 128,433,096
2016	\$ (5,533,155)	82%	\$ 121,125,640
2015	\$ (5,062,631)	84%	\$ 111,051,593

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2017	\$ 117,515,202	\$ (29,311,104)	\$ (146,826,306)	125%	\$ 184,278,840	-80%

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 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.

E. 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	3/1/2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed 30 year
Remaining Amortization Period	20
Asset Valuation	\$ 117,515,202
Actuarial Assumptions:	
Investment rate of return	5.8%
Discount rate	5.8%
Health care trend rate	4.0%
Inflation rate	2.75%

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 208,815,385	\$ 32,758,094	\$ 18,569,423	\$ 17,637,326
PERS Pension	74,270,848	21,199,368	4,099,826	8,608,396
Total	<u>\$ 283,086,233</u>	<u>\$ 53,957,462</u>	<u>\$ 22,669,249</u>	<u>\$ 26,245,722</u>

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Benefits provided (continued)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2017, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$16,157,373 for the year ended June 30, 2017.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$10,254,276 to CalSTRS.

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:

District's proportionate share of the net pension liability	\$ 208,815,385
State's proportionate share of the net pension liability associated with the District	118,892,375
Total	<u>\$ 327,707,760</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to 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. At June 30, 2016, the District’s proportion was 0.258 percent, which was a decrease of 0.007 percent from its proportion measured as of June 30, 2015.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$17,637,326. In addition, the District recognized pension expense and revenue of \$21,213,157 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>
Differences between projected and actual earnings on plan investments	\$ 16,600,721	\$ -
Differences between expected and actual experience	-	5,093,814
Changes in proportion and differences between District contributions and proportionate share of contributions	-	13,475,609
District contributions subsequent to the measurement date	16,157,373	-
	<u>\$ 32,758,094</u>	<u>\$ 18,569,423</u>

The \$16,157,373 reported as 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 year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 362,173	\$ 3,476,648
2019	362,173	3,476,648
2020	9,650,057	3,476,648
2021	6,226,318	3,476,648
2022	-	3,476,645
2023	-	1,186,186
	<u>\$ 16,600,721</u>	<u>\$ 18,569,423</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

* Net of investment expenses, but gross of administrative expenses.

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 actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016 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%
Private Equity	13%	9.30%
Real Estate	13%	5.20%
Inflation Sensitive	4%	3.80%
Fixed Income	12%	0.30%
Absolute Return	9%	2.90%
Cash/Liquidity	2%	-1.00%
	<u>100%</u>	

* 20-year geometric average

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’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 the total pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 300,532,432	\$ 208,815,385	\$ 132,640,536

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits provided

The benefits for the defined benefit plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017 was 13.888% of annual payroll. Contributions to the plan from the District were \$6,393,311 for the year ended June 30, 2017.

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 of \$74,270,848 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to 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. At June 30, 2016, the District’s proportion was 0.376 percent, which was an increase of 0.0015 percent from its proportion measured as of June 30, 2015.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$8,608,396. 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>
Differences between projected and actual earnings on plan investments	\$ 11,524,447	\$ -
Differences between expected and actual experience	3,194,358	-
Changes in assumptions	-	2,231,397
Changes in proportion and differences between District contributions and proportionate share of contributions	87,252	1,868,429
District contributions subsequent to the measurement date	6,393,311	-
	<u>\$ 21,199,368</u>	<u>\$ 4,099,826</u>

The \$6,393,311 reported as 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 year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 3,124,734	\$ 2,157,802
2019	3,015,494	1,942,024
2020	5,658,049	-
2021	3,007,780	-
	<u>\$ 14,806,057</u>	<u>\$ 4,099,826</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions (continued)

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

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Debt Securities	20%	0.99%	2.43%
Inflation Assets	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Discount rate

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

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 110,812,517	\$ 74,270,848	\$ 43,842,715

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. 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.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

C. Construction Commitments

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

	Remaining Construction Commitment	Expected Date of Completion
Capital Projects		
Cerro Villa Upgrades	\$ 85,696	August 2017
El Rancho Gym & Science Classrooms	2,036,205	December 2017
Energy Projects (Prop 39)	1,193,961	August 2017
Fletcher Elementary Upgrades	608,264	August 2017
Pre-Construction Measure S	699,368	December 2021
Villa Park Elementary Historical Building	421,645	January 2018
Total	<u>\$ 5,045,139</u>	

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF) public entity risk pools. The District pays an annual premium for its property and liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

SoCal ReLiEF has budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between SoCal ReLiEF and the District are included in these statements. The audited financial statements are generally available from the respective entities.

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District’s long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2017, the deferred amount on refunding was \$445,582.

NOTE 15 – RESTATEMENT OF NET POSITION

The beginning net position of the Retiree Benefits Fund has been restated in order to separately report the District’s Futuris Trust OPEB long-term investment fund in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The effect on beginning net position is presented as follows:

	Retiree Benefits
	Fund
Net Position - Beginning, as Previously Reported	\$ 133,120,468
Restatement	(112,113,517)
Net Position - Beginning, as Restated	<u>\$ 21,006,951</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**ORANGE UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 216,549,779	\$ 217,259,040	\$ 217,259,038	\$ (2)
Federal sources	12,902,080	14,974,849	13,015,158	(1,959,691)
Other state sources	29,965,237	43,292,524	41,979,933	(1,312,591)
Other local sources	5,340,780	6,661,761	6,265,776	(395,985)
Total Revenues	264,757,876	282,188,174	278,519,905	(3,668,269)
EXPENDITURES				
Certificated salaries	126,716,554	126,749,247	126,747,364	1,883
Classified salaries	45,151,471	45,085,558	44,419,671	665,887
Employee benefits	57,856,647	66,895,264	66,556,404	338,860
Books and supplies	13,585,258	22,461,514	20,060,172	2,401,342
Services and other operating expenditures	23,693,393	27,008,316	23,729,807	3,278,509
Capital outlay	1,125,000	937,987	937,342	645
Other outgo				
Excluding transfers of indirect costs	7,687,875	6,528,738	6,408,244	120,494
Transfers of indirect costs	(562,207)	(558,351)	(537,591)	(20,760)
Total Expenditures	275,253,991	295,108,273	288,321,413	6,786,860
Excess (Deficiency) of Revenues Over Expenditures	(10,496,115)	(12,920,099)	(9,801,508)	3,118,591
Other Financing Sources (Uses)				
Transfers out	(6,347,032)	(6,542,144)	(6,523,107)	19,037
Net Financing Sources (Uses)	(6,347,032)	(6,542,144)	(6,523,107)	19,037
NET CHANGE IN FUND BALANCE	(16,843,147)	(19,462,243)	(16,324,615)	3,137,628
Fund Balance - Beginning	69,655,877	79,290,185	79,290,185	-
Fund Balance - Ending	\$ 52,812,730	\$ 59,827,942	\$ 62,965,570	\$ 3,137,628

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2017	\$ 117,515,202	\$ (29,311,104)	\$ (146,826,306)	125%	\$ 184,278,840	-80%
March 1, 2015	\$ 114,154,694	\$ (32,333,156)	\$ (146,487,850)	128%	\$ 170,886,570	-86%
March 1, 2013	\$ 104,639,822	\$ (47,842,502)	\$ (152,482,324)	146%	\$ 146,786,996	-104%

See accompanying note to required supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.258%	0.265%	0.247%
District's proportionate share of the net pension liability	\$ 208,815,385	\$ 178,309,476	\$ 144,402,030
State's proportionate share of the net pension liability associated with the District	118,892,375	94,305,803	87,095,715
Total	<u>\$ 327,707,760</u>	<u>\$ 272,615,279</u>	<u>\$ 231,497,745</u>
District's covered payroll	\$ 131,030,288	\$ 129,820,436	\$ 122,389,401
District's proportionate share of the net pension liability as a percentage of its covered payroll	159.4%	137.4%	118.0%
Plan fiduciary net position as a percentage of the total pension liability.	70.0%	74.0%	76.5%

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.376%	0.375%	0.349%
District's proportionate share of the net pension liability	\$ 74,270,848	\$ 55,217,596	\$ 39,608,976
District's covered payroll	\$ 46,740,641	\$ 45,081,117	\$ 41,508,908
District's proportionate share of the net pension liability as a percentage of its covered payroll	158.9%	122.5%	95.4%
Plan fiduciary net position as a percentage of the total pension liability.	73.9%	79.4%	83.4%

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 16,157,373	\$ 13,515,699	\$ 10,589,609
Contributions in relation to the contractually required contribution*	(16,157,373)	(13,515,699)	(10,589,609)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 131,030,288	\$ 129,820,436	\$ 122,389,401
Contributions as a percentage of covered payroll	12.33%	10.41%	8.65%

*Amounts do not include on behalf contributions

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 6,393,311	\$ 5,240,840	\$ 4,817,989
Contributions in relation to the contractually required contribution	(6,393,311)	(5,240,840)	(4,817,989)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 46,740,641	\$ 45,081,117	\$ 41,508,908
Contributions as a percentage of covered payroll	13.68%	11.63%	11.61%

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, the District incurred no excesses of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule.

**SUPPLEMENTARY
INFORMATION**

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 5,114,657
Title II, Part A, Teacher Quality	84.367	14341	1,071,664
Title III, English Learner Student Program	84.365	14346	657,210
Indian Education	84.060	10011	57,368
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	4,939,912
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	21,218
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	311,022
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	126,548
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	420,030
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	1,929
Supporting Inclusive Practices	84.027A	13693	34,375
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	1,461
Subtotal Special Education Cluster			<u>5,856,495</u>
IDEA Early Intervention Grants, Part C	84.181	23761	86,305
Carl D. Perkins Career and Technical Education: Secondary, Section 13	84.048	14894	213,732
Total U. S. Department of Education			<u><u>13,057,431</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Basic	10.553	13525	6,279
School Breakfast Program - Needy	10.553	13526	1,097,856
National School Lunch Program	10.555	13391	4,107,197
USDA Commodities	10.555	*	610,791
Meal Supplements	10.555	*	160,108
Subtotal Child Nutrition Cluster			<u>5,982,231</u>
Forest Reserve Funds	10.665	10044	19,805
Total U. S. Department of Agriculture			<u><u>6,002,036</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	726,467
Medi-Cal Administrative Activities	93.778	10060	194,642
Subtotal Medicaid			<u>921,109</u>
Total U. S. Department of Health & Human Services			<u>921,109</u>
Total Federal Expenditures			<u><u>\$ 19,980,576</u></u>

* - Pass-Through Entity Identifying Number not available or not applicable

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2017**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	8,132.79	8,115.72
Extended Year Special Education	15.74	15.74
Special Education - Nonpublic Schools	0.92	1.19
Extended Year Special Education - Nonpublic Schools	0.20	0.20
Total TK/K through Third	8,149.65	8,132.85
Fourth through Sixth		
Regular ADA	6,273.49	6,264.78
Extended Year Special Education	10.40	10.40
Special Education - Nonpublic Schools	12.70	12.65
Extended Year Special Education - Nonpublic Schools	1.18	1.18
Total Fourth through Sixth	6,297.77	6,289.01
Seventh through Eighth		
Regular ADA	2,197.27	2,192.36
Extended Year Special Education	3.24	3.24
Special Education - Nonpublic Schools	9.89	9.65
Extended Year Special Education - Nonpublic Schools	1.43	1.43
Community Day School	2.91	4.71
Total Seventh through Eighth	2,214.74	2,211.39
Ninth through Twelfth		
Regular ADA	8,584.10	8,521.23
Extended Year Special Education	10.05	10.05
Special Education - Nonpublic Schools	19.12	18.08
Extended Year Special Education - Nonpublic Schools	2.87	2.87
Community Day School	22.70	26.84
Total Ninth through Twelfth	8,638.84	8,579.07
TOTAL SCHOOL DISTRICT	25,301.00	25,212.32

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA), continued
FOR THE YEAR ENDED JUNE 30, 2017**

EL RANCHO CHARTER SCHOOL

	Second Period Report	Annual Report
CHARTER SCHOOL		
Seventh through Eighth		
Regular ADA	1,173.03	1,172.00
Extended Year Special Education	0.22	0.22
Special Education - Nonpublic Schools	1.90	1.91
Extended Year Special Education - Nonpublic Schools	0.17	0.17
Total Seventh through Eighth	1,175.32	1,174.30
TOTAL CHARTER SCHOOL	1,175.32	1,174.30
 CLASSROOM-BASED CHARTER SCHOOL		
Classroom-based Seventh through Eighth		
Regular ADA	1,172.59	1,171.66
Extended Year Special Education	0.22	0.22
Total Classroom-based Seventh through Eighth	1,172.81	1,171.88
TOTAL CLASSROOM-BASED CHARTER SCHOOL	1,172.81	1,171.88

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	Minutes Requirement	2016-17		Status
		Actual Minutes	Number of Days	
Kindergarten	36,000	50,640	180	Complied
Grade 1	50,400	50,640	180	Complied
Grade 2	50,400	50,640	180	Complied
Grade 3	50,400	50,640	180	Complied
Grade 4	54,000	54,010	180	Complied
Grade 5	54,000	54,010	180	Complied
Grade 6	54,000	54,010	180	Complied
Grade 7	54,000	61,751	180	Complied
Grade 8	54,000	61,751	180	Complied
Grade 9	64,800	64,839	180	Complied
Grade 10	64,800	64,839	180	Complied
Grade 11	64,800	64,839	180	Complied
Grade 12	64,800	64,839	180	Complied

EL RANCHO CHARTER SCHOOL

Grade Level	Minutes Requirement	2016-17		Status
		Actual Minutes	Number of Days	
Grade 7	54,000	63,966	180	Complied
Grade 8	54,000	63,852	180	Complied

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	2018 (Budget)	2017	2016	2015
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 283,719,883	\$ 278,519,905	\$ 281,438,014	\$ 243,545,279
Expenditures And Other Financing Uses	294,252,580	294,844,520	282,117,582	246,351,338
Net change in Fund Balance	\$ (10,532,697)	\$ (16,324,615)	\$ (679,568)	\$ (2,806,059)
Ending Fund Balance	\$ 52,432,873	\$ 62,965,570	\$ 79,290,185	\$ 79,969,753
Available Reserves*	\$ 42,434,489	\$ 45,455,063	\$ 56,851,140	\$ 71,431,562
Available Reserves As A Percentage Of Outgo	14.42%	15.42%	20.15%	29.00%
Long-term Debt	\$ 400,223,172	\$ 406,119,871	\$ 361,802,969	\$ 317,731,611
Average Daily Attendance At P-2	24,780	25,301	25,840	26,301

The General Fund balance has decreased by \$17,004,183 over the past two years. The fiscal year 2017-18 budget projects a further decrease of \$10,532,697. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in each of the past three years and anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long term obligations have increased by \$88,388,260 over the past two years.

Average daily attendance has decreased by 1,000 ADA over the past two years. Additional decrease of 521 ADA is anticipated during the 2017-18 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**ORANGE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

	Retiree Benefits
	Fund
June 30, 2017, annual financial and budget report net position	\$ 140,310,524
Adjustments and reclassifications:	
Increase (decrease) in total net position:	
Cash with fiscal agent	(119,423,476)
Net adjustments and reclassifications	<u>(119,423,476)</u>
June 30, 2017, audited financial statement net position	<u>\$ 20,887,048</u>

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017**

Charter School	Status	Included in Audit Report
El Rancho Charter School	Active	Yes
Santiago Middle School	Active	No

ORANGE UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2017

	Charter Schools	Adult Education	Child Development	Cafeteria Fund
	Fund	Fund	Fund	
ASSETS				
Cash and investments	\$ 1,302,099	\$ 685	\$ 1,230,071	\$ 915,034
Accounts receivable	234,336	-	298,539	307,034
Due from other funds	1,382,245	305	1,047	191
Stores inventory	-	-	-	73,969
Total Assets	\$ 2,918,680	\$ 990	\$ 1,529,657	\$ 1,296,228
LIABILITIES				
Accrued liabilities	\$ 1,167,023	\$ 52	\$ 468,592	\$ 729,658
Due to other funds	436,212	938	102,215	322,436
Unearned revenue	-	-	161,725	-
Total Liabilities	1,603,235	990	732,532	1,052,094
FUND BALANCES				
Non-spendable	25,000	-	-	83,969
Restricted	1,591	-	797,125	160,165
Committed	-	-	-	-
Assigned	1,288,854	-	-	-
Total Fund Balances	1,315,445	-	797,125	244,134
Total Liabilities and Fund Balance	\$ 2,918,680	\$ 990	\$ 1,529,657	\$ 1,296,228

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET, continued
 JUNE 30, 2017**

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Capital Projects		Non-Major Governmental Funds
				Fund for Blended Component Units	Debt Service Fund	
\$ 5,064,966	\$ 3,647,256	\$ 7,032,464	\$ -	\$ 4,487,894	\$ 5,843,349	\$ 29,523,818
53,958	453	6,689	-	3,736	4,786	909,531
4,224,016	-	-	-	9,710	-	5,617,514
-	-	-	-	-	-	73,969
\$ 9,342,940	\$ 3,647,709	\$ 7,039,153	\$ -	\$ 4,501,340	\$ 5,848,135	\$ 36,124,832
\$ 1,017,537	\$ 1,601,862	\$ 12,798	\$ -	\$ 295,277	\$ -	\$ 5,292,799
26,014	-	-	-	13,125	-	900,940
-	-	-	-	-	-	161,725
1,043,551	1,601,862	12,798	-	308,402	-	6,355,464
-	-	-	-	-	-	108,969
-	2,045,847	7,026,355	-	4,192,938	5,848,135	20,072,156
8,299,389	-	-	-	-	-	8,299,389
-	-	-	-	-	-	1,288,854
8,299,389	2,045,847	7,026,355	-	4,192,938	5,848,135	29,769,368
\$ 9,342,940	\$ 3,647,709	\$ 7,039,153	\$ -	\$ 4,501,340	\$ 5,848,135	\$ 36,124,832

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	Charter Schools	Adult Education	Child Development	Cafeteria Fund
	Fund	Fund	Fund	Fund
REVENUES				
LCFF sources	\$ 8,673,306	\$ -	\$ -	\$ -
Federal sources	146,304	-	-	5,982,231
Other state sources	806,360	7,056	1,529,319	399,422
Other local sources	664,893	685	6,362,062	1,567,341
Total Revenues	10,290,863	7,741	7,891,381	7,948,994
EXPENDITURES				
Current				
Instruction	5,341,196	7,474	5,890,528	-
Instruction-related services				
Instructional supervision and administration	156,277	-	211,878	-
Instructional library, media, and technology	200,503	-	2,760	-
School site administration	1,320,288	-	1,268,987	-
Pupil services				
Home-to-school transportation	102,261	-	-	-
Food services	-	-	-	8,008,457
All other pupil services	246,491	-	133,846	-
General administration				
All other general administration	523,246	267	237,759	299,565
Plant services	733,978	-	45,047	1,293
Facilities acquisition and maintenance	10,674,590	-	-	5,530
Ancillary services	270	-	-	-
Transfers to other agencies	138,166	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	19,437,266	7,741	7,790,805	8,314,845
Excess (Deficiency) of Revenues Over Expenditures	(9,146,403)	-	100,576	(365,851)
Other Financing Sources (Uses)				
Transfers in	7,394,418	-	-	311
Transfers out	-	-	-	-
Net Financing Sources (Uses)	7,394,418	-	-	311
NET CHANGE IN FUND BALANCE	(1,751,985)	-	100,576	(365,540)
Fund Balance - Beginning	3,067,430	-	696,549	609,674
Fund Balance - Ending	\$ 1,315,445	\$ -	\$ 797,125	\$ 244,134

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES, continued
 FOR THE YEAR ENDED JUNE 30, 2017**

Deferred Maintenance Fund		Building Fund	Capital Facilities Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Debt Service Fund	Non-Major Governmental Funds
\$ 4,224,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	12,897,322
-	-	-	-	-	-	-	6,128,535
-	-	-	-	-	-	-	2,742,157
105,689	453	1,072,785	165	41,493	5,159,871		14,975,437
4,329,705	453	1,072,785	165	41,493	5,159,871		36,743,451
-	-	-	-	-	-	-	11,239,198
-	-	-	-	-	-	-	368,155
-	-	-	-	-	-	-	203,263
-	-	-	-	-	-	-	2,589,275
-	-	-	-	-	-	-	102,261
-	-	-	-	-	-	-	8,008,457
-	-	-	-	-	-	-	380,337
-	-	26	-	-	-	-	1,060,863
5,371,972	-	-	-	-	-	-	6,152,290
163,303	1,954,606	782,059	59,715	2,094,406	-	-	15,734,209
-	-	-	-	-	-	-	270
-	-	-	-	-	-	-	138,166
-	-	-	-	-	-	2,988,918	2,988,918
-	-	-	-	-	-	677,246	677,246
5,535,275	1,954,606	782,085	59,715	2,094,406	3,666,164		49,642,908
(1,205,570)	(1,954,153)	290,700	(59,550)	(2,052,913)	1,493,707		(12,899,457)
-	4,000,000	-	-	-	-	-	11,394,729
-	-	(102,466)	-	-	-	-	(102,466)
-	4,000,000	(102,466)	-	-	-	-	11,292,263
(1,205,570)	2,045,847	188,234	(59,550)	(2,052,913)	1,493,707		(1,607,194)
9,504,959	-	6,838,121	59,550	6,245,851	4,354,428		31,376,562
\$ 8,299,389	\$ 2,045,847	\$ 7,026,355	\$ -	\$ 4,192,938	\$ 5,848,135	\$	\$ 29,769,368

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2017**

The Orange Unified School District was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven 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 twenty seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

GOVERNING BOARD

Member	Office	Term Expires
Rick Ledesma	President	2018
John Ortega	Vice President	2020
Kathryn A. Moffat	Clerk	2018
Alexia Deligianni-Brydges, Ed.D.	Member	2020
Timothy Surridge	Member	2018
Andrea Yamasaki	Member	2018
Brenda Lebsack	Member	2020

DISTRICT ADMINISTRATORS

Michael L. Christensen, MBA
Superintendent – Retired August 2, 2017

Gunn Marie Hansen, Ph.D.
Deputy Superintendent, Educational Services

Joe Sorrera
Assistant Superintendent, Business Services/CBO – Resigned July 14, 2017

Ed Kisse
Assistant Superintendent, Human Resources

**ORANGE UNIFIED SCHOOL DISTRICT
 NOTES 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 following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2017 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2017.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 19,143,693
Medi-Cal Billing Option	93.778	728,475
Medi-Cal Administrative Activities	93.778	108,408
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$19,980,576</u>

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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 46208*. During the year ended June 30, 2017, the District participated in the Longer Day incentive funding program. As of June 30, 2017, the District had not yet met its target funding.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

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.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

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.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Independent Auditors' Report

Governing Board
Orange Unified School District
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Orange Unified School District's basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orange 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 Orange Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School District's internal control.

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

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State Board of Accountancy

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
November 27, 2017

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
Orange Unified School District
Orange, California

Report on Compliance for Each Major Federal Program

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Orange Unified School District's major federal programs for the year ended June 30, 2017. Orange 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 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 Orange 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 Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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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 Orange Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Orange 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 Orange 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 Orange 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 Orange Unified School District's internal control over compliance.

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

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

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

Christy White Associates

San Diego, California
November 27, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Orange Unified School District
Orange, California

Report on State Compliance

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Orange Unified School District's state programs for the fiscal year ended June 30, 2017, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orange Unified School District's state 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Orange 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 with the requirements referred to above. However, our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Opinion on State Compliance

In our opinion, Orange Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2017.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not applicable
Middle or Early College High Schools	Not applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Attendance; for charter schools	Yes
Mode of Instruction; for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study; for charter schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Yes
Charter School Facility Grant Program	Not applicable

We did not perform testing for Independent Study or Nonclassroom-Based Instruction/Independent Study; for charter schools because the total amount of ADA claimed did not exceed the threshold required for testing.

Christy White Associates

San Diego, California
November 27, 2017

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**ORANGE UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low-Income and Neglected</u>
<u>84.367</u>	<u>Title II, Part A, Teacher Quality</u>
<u>93.778</u>	<u>Medicaid</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**ORANGE UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2017.

ORANGE UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2017.

**ORANGE UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2017.

**ORANGE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: 1 of 60 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as English Learner (EL) did not have proper supporting documentation to support their designation. When the error is extrapolated over the impacted population (1,304 students), 22 students were identified as ineligible.

Cause: While the District does have procedures in place to identify changes as they are made and update the CALPADS records, an error occurred and the student record was not updated.

Effect: The District is not in compliance with State requirements.

Context: 22 of 40,844 (13,252 for 2015-16, 13,615 for 2014-15, and 13,977 for 2013-14) students reported in the District’s Unduplicated Pupil Count did not have proper supporting documentation to support their EL designation.

ORANGE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000), continued

Questioned Costs:

UPP Audit Adjustment		Section 1: Regular UPP	Section 2: Alternate UPP
1	Total Adjusted Enrollment from the UPP exhibit as of P-2	82,099	81,826
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2	40,844	40,482
3	Number of Unduplicated Pupil Count audit adjustment		(22)
4	Revised Adjusted Unduplicated Pupil Count	40,822	40,460
5	UPP calculated as of P-2	0.4975	0.4947
6	Revised UPP for audit finding	0.4972	0.4945
7	Greater of Revised UPP for audit finding from Section 1 or 2		0.4972
8	Charter Schools Only: Determinative School District Concentration Cap		
9	Revised UPP adjusted for Concentration Cap		0.4972
LCFF Target Base Grant Funding		Estimated Values	
10	Total Base Grant Funding as of P-2	\$210,395,269	
LCFF Target Supplemental Grant Funding Audit Adjustment			
11	Target Supplemental Grant Funding calculated as of P-2	\$20,934,329	
12	Revised Target Supplemental Grant Funding for audit finding	\$20,921,706	
13	Target Supplemental Grant Funding audit adjustment	(\$12,623)	
LCFF Target Concentration Grant Funding Audit Adjustment			
14	Target Concentration Grant Funding calculated as of P-2	\$0	
15	Revised Target Concentration Grant Funding for audit finding	\$0	
16	Target Concentration Grant Funding audit adjustment	\$0	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target			
17	Total Target Supplemental and Concentration audit adjustment	(\$12,623)	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap			
18	Statewide Gap Funding Rate as of P-2	0.5255761597	
21	Estimated Cost of Unduplicated Pupil Count audit adjustment	(\$6,634)	

Recommendation: We recommend that the District ensure that all students listed as EL in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have proper documentation to support their CALPADS designation.

District Response: In September 2016, new procedures were implemented to validate Reclassified dates across multiple years of language fluency data. District personnel will be monitoring and auditing the language fluency status changes in CALPADS after changes are made in the student information system. District staff will be working to validate all the language fluency status changes before submitting into the CALPADS system.

Current Status: Implemented.