

ORANGE UNIFIED SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

ORANGE UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2018

FINANCIAL SECTION

Independent Auditors' Report 1
Management's Discussion and Analysis..... 4
Basic Financial Statements
 Government-wide Financial Statements
 Statement of Net Position 21
 Statement of Activities 22
 Fund Financial Statements
 Governmental Funds – Balance Sheet 23
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 24
 Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances..... 26
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund
 Balances to the Statement of Activities 27
 Proprietary Funds – Statement of Net Position 29
 Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Position..... 30
 Proprietary Funds – Statement of Cash Flows..... 31
 Fiduciary Funds – Statement of Net Position..... 32
 Fiduciary Funds – Statement of Changes in Net Position..... 33
Notes to Financial Statements 34

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule 79
Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios..... 80
Schedule of the District's Proportionate Share of the Net Pension Liability - CalSTRS 81
Schedule of the District's Proportionate Share of the Net Pension Liability - CalPERS..... 82
Schedule of District Contributions - CalSTRS 83
Schedule of District Contributions - CalPERS..... 84
Notes to Required Supplementary Information..... 85

ORANGE UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2018

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	87
Schedule of Average Daily Attendance (ADA).....	88
Schedule of Instructional Time	90
Schedule of Financial Trends and Analysis	91
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	92
Schedule of Charter Schools.....	93
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	94
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	96
Local Education Agency Organization Structure	98
Notes to Supplementary Information.....	99

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 <i>Government Auditing Standards</i>	101
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance.....	103
Report on State Compliance.....	105

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors’ Results	108
Financial Statement Findings.....	109
Federal Award Findings and Questioned Costs	110
State Award Findings and Questioned Costs.....	111
Summary Schedule of Prior Audit Findings	112

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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, in 2018 Orange Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in net OPEB liability and related ratios, 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 29, 2018 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 the effectiveness of Orange Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
November 29, 2018

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

- Gunn Marie Hansen, Ph.D, Superintendent

Educational Services

- Anne Truex, Interim Assistant Superintendent, Educational Services

Human Resources

- Ed Kisse, Assistant Superintendent, Human Resources

Business Services

- David Rivera, Assistant Superintendent, Business Services/CBO

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, 2018**

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 known 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, 2018**

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 (LCAP) 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 Year 2 LCAP approved by the Board of Education on June 7, 2018:

- SAT School Day for all high school students plus eight grade
- 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 and grade levels participating in the AVID program
- Increase in elementary STEAM labs and robotics programs

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS OVERVIEW

- ▶ The District's total net position was (\$22,752,366) at June 30, 2018. This was a decrease of \$3,870,144 from the prior year after restatement due to the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.
- ▶ Overall revenues were \$315,106,743 which was exceeded by expenses of \$318,976,887.

The Orange Unified School District's MD&A provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. 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, 2018**

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, 2018**

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 51 – Bond Interest and Redemption Fund
13. Fund 56 – Debt Service Fund
14. Fund 67 – Self-Insurance Fund
15. Fund 71 – Retiree Benefit Fund

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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		
	2018	2017*	Net Change
ASSETS			
Current and other assets	\$356,931,583	\$174,519,029	\$ 182,412,554
Net OPEB asset	22,251,117	24,151,423	(1,900,306)
Capital assets	197,432,717	186,025,693	11,407,024
Total Assets	576,615,417	384,696,145	191,919,272
DEFERRED OUTFLOWS OF RESOURCES	90,141,776	54,403,044	35,738,732
LIABILITIES			
Current liabilities	26,784,827	35,088,990	(8,304,163)
Long-term liabilities	631,281,021	400,223,172	231,057,849
Total Liabilities	658,065,848	435,312,162	222,753,686
DEFERRED INFLOWS OF RESOURCES	31,443,711	22,669,249	8,774,462
NET POSITION			
Net investment in capital assets	139,841,186	155,693,273	(15,852,087)
Restricted	76,021,107	56,311,668	19,709,439
Unrestricted	(238,614,659)	(230,887,163)	(7,727,496)
Total Net Position	\$ (22,752,366)	\$ (18,882,222)	\$ (3,870,144)

*Net OPEB assets for 2017 were reported in accordance with GASB Statement No. 45, the District’s net OPEB assets were restated in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018. See Note 15 for further information.

The District’s combined net position was (\$22,752,366) at June 30, 2018, as reflected in the table above. Of this amount (\$238,614,659) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board’s ability to use that net position for day-to-day operations.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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		
	2018	2017	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 11,050,190	\$ 9,983,769	\$ 1,066,421
Operating grants and contributions	55,391,714	75,625,966	(20,234,252)
General revenues			
Property taxes	171,523,660	159,460,434	12,063,226
Unrestricted federal and state aid	71,856,277	82,970,466	(11,114,189)
Other	5,284,902	4,332,455	952,447
Total Revenues	315,106,743	332,373,090	(17,266,347)
EXPENSES			
Instruction	185,573,265	198,107,235	(12,533,970)
Instruction-related services	47,741,025	47,720,423	20,602
Pupil services	34,855,248	34,269,219	586,029
General administration	11,281,806	11,085,785	196,021
Plant services	30,238,930	29,599,711	639,219
Ancillary and community services	2,571,807	2,130,779	441,028
Debt service	3,436,113	2,342,979	1,093,134
Other Outgo	3,278,693	2,016,375	1,262,318
Total Expenses	318,976,887	327,272,506	(8,295,619)
Change in net position	(3,870,144)	5,100,584	(8,970,728)
Net Position - Beginning	(18,882,222)	80,298,867	(99,181,089)
Restatement (Note 15)	-	(104,281,673)	104,281,673
Net Position - Ending	\$ (22,752,366)	\$ (18,882,222)	\$ (3,870,144)

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 \$318,976,887 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$171,523,660 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, 2018**

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 \$319,111,052, which is more than last year's ending fund balance of \$129,322,798. The increase in fund balance is mainly due to the issuance of \$188,000,000 of General Obligation Bonds 2016 Series A.

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, 2018**

FUND ANALYSIS (continued)

TABLE 4 - GENERAL FUND COMPARISON

	<u>2018</u>	<u>2017</u>	<u>Net Change</u>
Revenues	\$285,444,676	\$278,519,905	\$ 6,924,771
Expenditures	285,600,708	288,321,413	(2,720,705)
Excess (Deficiency)	(156,032)	(9,801,508)	9,645,476
Transfers Out	(3,793,577)	(6,523,107)	2,729,530
Net Increase (Decrease) in Fund Balance	<u>\$ (3,949,609)</u>	<u>\$ (16,324,615)</u>	<u>\$ 12,375,006</u>
Beginning Fund Balance	\$ 62,965,570	\$ 79,290,185	\$ (16,324,615)
Net Increase (Decrease) in Fund Balance	(3,949,609)	(16,324,615)	12,375,006
Ending Fund Balance	<u>\$ 59,015,961</u>	<u>\$ 62,965,570</u>	<u>\$ (3,949,609)</u>
<u>Components of Ending Fund Balance</u>			
Revolving Cash, Stores, Prepaid	\$ 1,848,531	\$ 1,781,030	\$ 67,501
Restricted	1,443,965	1,427,970	15,995
Assignments	10,993,866	14,301,507	(3,307,641)
3% Reserve for Economic Uncertainty	8,681,829	8,845,336	(163,507)
Unassigned/Unappropriated Amount	36,047,770	36,609,727	(561,957)
Ending Fund Balance	<u>\$ 59,015,961</u>	<u>\$ 62,965,570</u>	<u>\$ (3,949,609)</u>

The increases in revenues are primarily attributed to additional state funding including declining enrollment protection. The Transfers Out of approximately \$3.8M were due to the transfer of one-time Mandated Cost revenues to Fund 40 in order to provide multiple year funding for the deferred maintenance program. The General Fund Ending Fund Balance decreased by \$3.9M in 2018. The District has been fiscally responsible in minimizing structure deficits in the past.

On March 8, 2018 Board Meeting, the Board of Education took action on approving a 3-Year Budget Stabilization Plan that totals \$10 million in reductions. This plan provides effective cost containment strategies to help address structural deficits caused by declining student enrollment, the rising costs of employee benefits and additional general fund contributions to Special Education and Student Transportation.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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. Series A was issued in June 2018 for \$188 million with a remaining \$100 million remaining to be issued. 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, 2018**

FUND ANALYSIS (continued)

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

As previously stated, the District sold the first series of bonds in June 2018. The District delayed the issuance of Measure S Bonds until close to actual construction timelines. In the interim, the District utilized internal funds from Fund 40 to help finance the initial planning, design, and construction startup. After bonds proceeds were deposited in the county treasury, the District reimbursed Fund 40 for approximately \$12.7 million of Measure S allowable expenditures advanced over the past 18 months.

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 \$23,182,435.

In 2017-18 the expense in Fund 40 include the Prop 39 Energy Projects of \$2,802,738 and \$376,400 for the cost of issuance of the first series of Measure S bonds.

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, 2018**

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	\$ 176,131	\$ -	\$ 2,409,284	\$ 4,763,766
Expenditures	5,484,091	9,792,103	3,473,894	6,784,472
Excess (Deficiency)	(5,307,960)	(9,792,103)	(1,064,610)	(2,020,706)
Other Financing Sources (Uses)	4,209,074	183,999,550	11,220,372	-
Net Increase (Decrease) in Fund Balance	\$ (1,098,886)	\$174,207,447	\$ 10,155,762	\$ (2,020,706)
Beginning Fund Balance/Net Position	\$ 8,299,389	\$ 2,045,847	\$ 36,587,860	\$ 20,887,048
Net Increase (Decrease) in Fund Balance	(1,098,886)	174,207,447	10,155,762	(2,020,706)
Ending Fund Balance/Net Position	\$ 7,200,503	\$176,253,294	\$ 46,743,622	\$ 18,866,342

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 overall variance in projected ending fund balances between the 2017-18 Estimated Actuals presented in June 2017 and the Unaudited Actuals presented in September 2018 was approximately \$4 million. The larger reserve balances was attributed to lesser contributions to restricted programs, additional savings in operating expenditures and larger site carryover balances.

Also, unexpended revenues of restricted Federal and State grants were deferred into the next year and corresponding expenditures under Books/Supplies and Services were reduced accordingly. Any carryover balances of restricted funds were budgeted in the subsequent year.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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		
	2018	2017	Net Change
CAPITAL ASSETS			
Land	\$ 19,082,424	\$ 19,082,424	\$ -
Construction in progress	14,101,672	23,774,659	(9,672,987)
Land improvements	11,362,942	10,764,671	598,271
Buildings & improvements	228,717,964	203,320,881	25,397,083
Furniture & equipment	15,277,871	15,166,832	111,039
Accumulated depreciation	(91,110,156)	(86,083,774)	(5,026,382)
Total Long-term Liabilities	\$197,432,717	\$186,025,693	\$ 11,407,024

As of June 30, 2018, the District had invested \$197,432,717 in a broad range of capital assets, net of accumulated depreciation. During the 2017-18 fiscal year, the District completed Prop 39 Energy Project upgrades to various sites and the construction of 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, 2018**

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		
	2018	2017	Net Change
LONG-TERM OBLIGATIONS			
Total general obligation bonds	\$195,120,226	\$ -	\$ 195,120,226
Total certificates of participation	32,037,601	24,848,145	7,189,456
Retirement health benefits funding bonds	78,765,000	80,865,000	(2,100,000)
Capital leases	7,068,925	7,975,704	(906,779)
Compensated absences	4,093,548	4,293,789	(200,241)
Net pension liability	314,592,614	283,086,233	31,506,381
Less: current portion of long-term debt	(6,008,893)	(5,896,699)	(112,194)
Total Long-term Liabilities	\$625,669,021	\$395,172,172	\$ 230,496,849

Payments on the general obligation bonds are made in the Bond Interest and Redemption Fund. 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, 2018**

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.

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). 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 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

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.

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, 2018. 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 565 students 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 2018-19 fiscal year.

**ORANGE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

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:

David Rivera
Assistant Superintendent, Business Services/CBO
(714) 628-4479
drivera@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, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 333,952,371
Accounts receivable	21,158,674
Inventory	162,278
Prepaid expenses	1,658,260
Net OPEB asset	22,251,117
Capital assets, not depreciated	33,184,096
Capital assets, net of accumulated depreciation	164,248,621
Total Assets	576,615,417
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	89,230,661
Deferred outflows related to OPEB	529,188
Deferred amount on refunding	381,927
Total Deferred Outflows of Resources	90,141,776
LIABILITIES	
Accrued liabilities	19,833,928
Unearned revenue	942,006
Long-term liabilities, current portion	6,008,893
Long-term liabilities, non-current portion	631,281,021
Total Liabilities	658,065,848
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	31,443,711
Total Deferred Inflows of Resources	31,443,711
NET POSITION	
Net investment in capital assets	139,841,186
Restricted:	
Capital projects	59,552,429
Debt service	13,973,771
Educational programs	2,489,284
All others	5,623
Unrestricted	(238,614,659)
Total Net Position	\$ (22,752,366)

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

**ORANGE UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 185,573,265	\$ 1,066,487	\$ 32,063,424	\$ (152,443,354)
Instruction-related services				
Instructional supervision and administration	14,866,150	51,534	4,491,145	(10,323,471)
Instructional library, media, and technology	7,538,841	6,491	239,507	(7,292,843)
School site administration	25,336,034	224,684	608,821	(24,502,529)
Pupil services				
Home-to-school transportation	10,378,521	-	14,293	(10,364,228)
Food services	8,255,030	1,410,224	6,266,688	(578,118)
All other pupil services	16,221,697	28,044	2,392,790	(13,800,863)
General administration				
Centralized data processing	2,318,081	-	-	(2,318,081)
All other general administration	8,963,725	85,243	1,385,152	(7,493,330)
Plant services	30,238,930	2,210,827	3,490,367	(24,537,736)
Ancillary services	2,384,284	-	27,126	(2,357,158)
Community services	187,523	-	-	(187,523)
Interest on long-term debt	3,436,113	-	-	(3,436,113)
Other Outgo	3,278,693	5,966,656	4,412,401	7,100,364
Total Governmental Activities	\$ 318,976,887	\$ 11,050,190	\$ 55,391,714	(252,534,983)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				169,962,281
Property taxes, levied for other specific purposes				1,561,379
Federal and state aid not restricted for specific purposes				71,856,277
Interest and investment earnings				1,444,079
Interagency revenues				839,039
Miscellaneous				3,001,784
Subtotal, General Revenue				248,664,839
CHANGE IN NET POSITION				(3,870,144)
Net Position - Beginning, as Restated				(18,882,222)
Net Position - Ending				\$ (22,752,366)

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

**ORANGE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 65,726,414	\$ 190,444,301	\$ 24,915,211	\$ 35,326,591	\$ 316,412,517
Accounts receivable	9,491,048	-	9,856,472	877,936	20,225,456
Due from other funds	1,716,913	-	16,637,091	5,122,856	23,476,860
Stores inventory	90,271	-	-	72,007	162,278
Prepaid expenditures	1,658,260	-	-	-	1,658,260
Total Assets	\$ 78,682,906	\$ 190,444,301	\$ 51,408,774	\$ 41,399,390	\$ 361,935,371
LIABILITIES					
Accrued liabilities	\$ 14,093,765	\$ 1,460,557	\$ 470,213	\$ 3,325,098	\$ 19,349,633
Due to other funds	4,791,438	12,730,450	4,194,939	815,853	22,532,680
Unearned revenue	781,742	-	-	160,264	942,006
Total Liabilities	19,666,945	14,191,007	4,665,152	4,301,215	42,824,319
FUND BALANCES					
Nonspendable	1,848,531	-	-	107,007	1,955,538
Restricted	1,443,965	176,253,294	46,743,622	28,062,974	252,503,855
Committed	-	-	-	7,200,503	7,200,503
Assigned	10,993,866	-	-	1,727,691	12,721,557
Unassigned	44,729,599	-	-	-	44,729,599
Total Fund Balances	59,015,961	176,253,294	46,743,622	37,098,175	319,111,052
Total Liabilities and Fund Balances	\$ 78,682,906	\$ 190,444,301	\$ 51,408,774	\$ 41,399,390	\$ 361,935,371

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, 2018**

Total Fund Balance - Governmental Funds \$ 319,111,052

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	\$ 288,542,873	
Accumulated depreciation	<u>(91,110,156)</u>	197,432,717

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

22,251,117

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:

381,927

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 unmatrued interest owing at the end of the period was:

(229,454)

(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, 2018**

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 general obligation bonds	\$ 195,120,226	
Total certificates of participation	32,037,601	
Retirement health benefits funding bonds	78,765,000	
Capital leases	7,068,925	
Compensated absences	4,093,548	
Net pension liability	<u>314,592,614</u>	(631,677,914)

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	\$ 89,230,661	
Deferred inflows of resources related to pensions	<u>(31,443,711)</u>	57,786,950

Deferred outflows of resources relating to OPEB:

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

Deferred outflows of resources related to OPEB		529,188
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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:

11,662,051

Total Net Position - Governmental Activities	<u>\$ (22,752,366)</u>
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**ORANGE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 223,528,808	\$ -	\$ -	\$ 8,862,488	\$ 232,391,296
Federal sources	13,870,850	-	-	6,145,819	20,016,669
Other state sources	40,525,313	-	1,411,049	3,377,415	45,313,777
Other local sources	7,519,705	-	998,235	16,275,217	24,793,157
Total Revenues	285,444,676	-	2,409,284	34,660,939	322,514,899
EXPENDITURES					
Current					
Instruction	173,846,340	-	-	12,229,855	186,076,195
Instruction-related services					
Instructional supervision and administration	14,494,848	-	-	377,251	14,872,099
Instructional library, media, and technology	7,248,246	-	-	203,537	7,451,783
School site administration	21,407,027	-	-	3,164,374	24,571,401
Pupil services					
Home-to-school transportation	9,347,420	-	-	96,411	9,443,831
Food services	-	-	-	7,881,416	7,881,416
All other pupil services	15,805,661	-	-	420,161	16,225,822
General administration					
Centralized data processing	2,279,745	-	-	-	2,279,745
All other general administration	7,976,999	-	-	644,398	8,621,397
Plant services					
Facilities acquisition and maintenance	-	9,792,103	2,802,737	3,915,360	16,510,200
Ancillary services	2,282,983	-	-	23,996	2,306,979
Community services	163,674	-	-	2,040	165,714
Transfers to other agencies	2,399,344	-	-	144,537	2,543,881
Debt service					
Principal	3,006,779	-	-	2,889,920	5,896,699
Interest and other	2,206,078	-	671,157	1,180,418	4,057,653
Total Expenditures	285,600,708	9,792,103	3,473,894	39,059,542	337,926,247
Excess (Deficiency) of Revenues					
Over Expenditures	(156,032)	(9,792,103)	(1,064,610)	(4,398,603)	(15,411,348)
Other Financing Sources (Uses)					
Transfers in	-	8,730,000	16,456,137	6,653,505	31,839,642
Other sources	-	188,000,000	10,079,376	7,120,226	205,199,602
Transfers out	(3,793,577)	(12,730,450)	(15,315,141)	(474)	(31,839,642)
Net Financing Sources (Uses)	(3,793,577)	183,999,550	11,220,372	13,773,257	205,199,602
NET CHANGE IN FUND BALANCE					
Fund Balance - Beginning	62,965,570	2,045,847	36,587,860	27,723,521	129,322,798
Fund Balance - Ending	\$ 59,015,961	\$ 176,253,294	\$ 46,743,622	\$ 37,098,175	\$ 319,111,052

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, 2018**

Net Change in Fund Balances - Governmental Funds \$ 189,788,254

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:	\$ 16,621,240	
Depreciation expense:	<u>(5,026,382)</u>	11,594,858

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:

5,896,699

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(205,199,602)

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:

(49,617)

(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, 2018**

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: 200,241

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (1,371,118)

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: (5,007,644)

Cost write-off for canceled capital projects:

If a planned capital project is canceled and will not be completed, costs previously capitalized as Work-in-progress must be written off to expense. Additionally, costs previously added to Work-in-progress beneath the capitalization threshold must be written off to expense. Costs written off for canceled projects and reclassified expenses were: (187,834)

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: 529,274

Change in Net Position of Governmental Activities \$ (3,870,144)

ORANGE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 17,539,854
Accounts receivable	23,220
Due from other funds	108,668
Total Assets	17,671,742
LIABILITIES	
Current liabilities	
Accrued liabilities	127,649
Due to other funds	270,042
Total current liabilities	397,691
Non-current liabilities	5,612,000
Total Liabilities	6,009,691
NET POSITION	
Restricted	11,662,051
Total Net Position	\$ 11,662,051

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, 2018

	Governmental Activities Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 3,930,942
Total operating revenues	<u>3,930,942</u>
OPERATING EXPENSE	
Salaries and benefits	292,652
Professional services	3,316,601
Total operating expenses	<u>3,609,253</u>
Operating income/(loss)	<u>321,689</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	207,585
Total non-operating revenues/(expenses)	<u>207,585</u>
CHANGE IN NET POSITION	529,274
Net Position - Beginning	<u>11,132,777</u>
Net Position - Ending	<u>\$ 11,662,051</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, 2018**

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Cash flows from operating activities	
Cash received (paid) from assessments made to (from) other funds	\$ 3,932,894
Cash payments for payroll, insurance, and operating costs	(2,760,415)
Net cash provided by (used for) operating activities	<u>1,172,479</u>
Cash flows from investing activities	
Interest received	207,585
Net cash provided by (used for) investing activities	<u>207,585</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,380,064
 CASH AND CASH EQUIVALENTS	
Beginning of year	16,159,790
End of year	<u>\$ 17,539,854</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ 321,689
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	761
(Increase) decrease in due from other funds	1,191
Increase (decrease) in accounts payable	18,227
Increase (decrease) in due to other funds	269,611
Increase (decrease) in claims liabilities	561,000
Net cash provided by (used for) operating activities	<u>\$ 1,172,479</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	<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	\$ 18,716,527	\$ 1,815,786
Accounts receivable	933,593	-
Due from other funds	127,192	-
Total Assets	<u>19,777,312</u>	<u>\$ 1,815,786</u>
LIABILITIES		
Accrued liabilities	972	\$ -
Due to other funds	909,998	-
Due to student groups	-	1,815,786
Total Liabilities	<u>910,970</u>	<u>\$ 1,815,786</u>
NET POSITION		
Restricted	<u>18,866,342</u>	
Total Net Position	<u>\$ 18,866,342</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, 2018

	<u>Trust Funds</u>
	<u>Retiree Benefit</u>
	<u>Fund</u>
ADDITIONS	
Contributions	\$ 4,503,526
Investment earnings	257,540
Other	2,700
Total Additions	<u>4,763,766</u>
DEDUCTIONS	
Benefit payments	<u>6,784,472</u>
Total Deductions	<u>6,784,472</u>
CHANGE IN NET POSITION	(2,020,706)
Net Position - Beginning	<u>20,887,048</u>
Net Position - Ending	<u>\$ 18,866,342</u>

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

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

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

C. Basis of Presentation (*continued*)

Major Governmental Funds (*continued*)

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).

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*).

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*).

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Special Revenue Funds (continued):

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*).

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).

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.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

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, 2018

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

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*)

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 – June 30, 2018

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

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*)

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

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, 2018

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, 2018

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 implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard’s primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard’s primary objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard’s primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard’s primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental		Internal Service		Total		Fiduciary	
	Funds		Funds		Governmental Activities		Funds	
Investment in county treasury	\$ 314,721,451	\$	17,439,854	\$	332,161,305	\$	18,716,527	
Cash on hand and in banks	470,691		100,000		570,691		1,815,786	
Cash with fiscal agent	1,085,375		-		1,085,375		-	
Cash in revolving fund	135,000		-		135,000		-	
Total cash and investments	\$ 316,412,517	\$	17,539,854	\$	333,952,371	\$	20,532,313	

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

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.

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

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 \$349,367,283 and an amortized book value of \$350,877,832. The average weighted maturity for this pool is 302 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, 2018, the pooled investments in the County Treasury were rated AAAM.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

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, 2018, 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, 2018

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, 2018 were as follows:

	Uncategorized
Investment in county treasury	<u>\$ 349,367,283</u>
Total fair market value of investments	<u>\$ 349,367,283</u>

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	District-Wide	Total Governmental Activities	Total Fiduciary
Federal Government							
Categorical aid	\$ 6,434,572	\$ -	\$ 341,014	\$ -	\$ -	\$ 6,775,586	\$ -
State Government							
Categorical aid	757,462	-	316,647	-	-	1,074,109	-
Lottery	1,110,726	-	51,713	-	-	1,162,439	-
Local Government							
Other local sources	1,188,288	9,856,472	168,562	23,220	-	11,236,542	933,593
Due from fiduciary funds	-	-	-	-	909,998	909,998	-
Total	<u>\$ 9,491,048</u>	<u>\$ 9,856,472</u>	<u>\$ 877,936</u>	<u>\$ 23,220</u>	<u>\$ 909,998</u>	<u>\$ 21,158,674</u>	<u>\$ 933,593</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 19,082,424	\$ -	\$ -	\$ 19,082,424
Construction in progress	23,774,659	16,510,201	26,183,188	14,101,672
Total Capital Assets not Being Depreciated	42,857,083	16,510,201	26,183,188	33,184,096
Capital assets being depreciated				
Land improvements	10,764,671	598,271	-	11,362,942
Buildings & improvements	203,320,881	25,397,083	-	228,717,964
Furniture & equipment	15,166,832	111,039	-	15,277,871
Total Capital Assets Being Depreciated	229,252,384	26,106,393	-	255,358,777
Less Accumulated Depreciation				
Land improvements	9,838,440	115,898	-	9,954,338
Buildings & improvements	65,331,072	3,720,512	-	69,051,584
Furniture & equipment	10,914,262	1,189,972	-	12,104,234
Total Accumulated Depreciation	86,083,774	5,026,382	-	91,110,156
Governmental Activities				
Capital Assets, net	\$ 186,025,693	\$ 37,590,212	\$ 26,183,188	\$ 197,432,717

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

Governmental Activities	
Instruction	\$ 3,072,393
Instructional supervision and administration	166,398
Instructional library, media, and technology	90,494
School site administration	358,142
Home-to-school transportation	149,648
Food services	157,314
All other pupil services	205,978
Centralized data processing	27,869
All other general administration	132,046
Plant services	629,535
Ancillary services	30,957
Community services	5,608
Total depreciation expense	<u>\$ 5,026,382</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2018 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 Fund	
General Fund	\$ -	\$ 3,725,687	\$ 856,946	\$ 92,757	\$ 116,048	\$ 4,791,438
Building Fund	-	12,730,450	-	-	-	12,730,450
Special Reserve Fund for Capital Outlay Projects	-	-	4,194,939	-	-	4,194,939
Non-Major Governmental Funds	607,773	180,954	474	15,911	10,741	815,853
Internal Service Fund	199,142	-	70,497	-	403	270,042
Retiree Benefit Fund	909,998	-	-	-	-	909,998
Total Due From Other Funds	\$ 1,716,913	\$ 16,637,091	\$ 5,122,856	\$ 108,668	\$ 127,192	\$ 23,712,720

The General Fund owed the Special Reserve Fund for Capital Outlay Projects for mandated cost reimbursements.	\$ 3,725,687
The General Fund owed the Non-Major Charter Schools Fund for P2 in-lieu revenue.	671,328
The General Fund owed the Non-Major Child Development Fund for indirect costs, payroll taxes and use tax.	985
The General Fund owed the Non-Major Cafeteria Fund for negative student account balances and indirect cost adjustment.	118,363
The General Fund owed the Non-Major Deferred Maintenance Fund for partial annual contribution.	66,270
The General Fund owed the Internal Service Fund for employee benefits.	92,757
The General Fund owed the Retiree Benefit Fund for retirement benefits.	116,048
The Building Fund owed the Special Reserve Fund for Capital Outlay Projects for repayment of construction advancement.	12,730,450
The Special Reserve Fund for Capital Outlay Projects owed the Non-Major Deferred Maintenance Fund for district match.	4,194,939
The Non-Major Charter Schools Fund owed the General Fund for payroll taxes, oversight fee, waste service, special education, transportation, postage and printing charges.	213,171
The Non-Major Adult Education Fund owed the General Fund for payroll taxes.	505
The Non-Major Child Development Fund owed the General Fund for payroll taxes, indirect cost, transportation, postage, and bank charges.	86,978
The Non-Major Cafeteria Fund owed the General Fund for vehicle maintenance, postage, payroll taxes, bank charges, and indirect costs.	307,119
The Non-Major Charter Schools Fund owed the Special Reserve Fund for Capital Outlay Projects for interest on construction advancement.	180,954
The Non-Major Charter Schools Fund owed the Non-Major Cafeteria Fund for negative student account balances.	474
The Non-Major Charter Schools Fund owed the Internal Service Fund for employee benefits.	1,532
The Non-Major Child Development Fund owed the Internal Service Fund for employee benefits.	7,976
The Non-Major Cafeteria Fund owed the Internal Service Fund for employee benefits.	6,403
The Non-Major Charter Schools Fund owed the Retiree Benefit Fund for retirement benefits.	1,594
The Non-Major Child Development Fund owed the Retiree Benefit Fund for retirement benefits.	9,147
The Internal Service Fund owed the General Fund for bank charges and payroll taxes.	199,142
The Internal Service Fund owed the Non-Major Charter Schools Fund for payroll taxes.	2,321
The Internal Service Fund owed the Non-Major Cafeteria Fund for payroll taxes.	68,176
The Internal Service Fund owed the Retiree Benefit Fund for retirement benefits.	403
The Retiree Benefit Fund owed the General Fund for OPEB costs on Federal programs.	909,998
Total	\$ 23,712,720

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Interfund Transfers Out	Interfund Transfers In			
	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 3,725,687	\$ 67,890	\$ 3,793,577
Building Fund	-	12,730,450	-	12,730,450
Special Reserve Fund for Capital Outlay Projects	8,730,000	-	6,585,141	15,315,141
Non-Major Governmental Funds	-	-	474	474
Total Interfund Transfers	\$ 8,730,000	\$ 16,456,137	\$ 6,653,505	\$ 31,839,642

The Special Reserve Fund for Capital Outlay Projects transferred to the Building Fund for construction advancement.	\$ 8,730,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for mandated costs reimbursement.	3,725,687
The Building Fund transferred to the Special Reserve Fund for Capital Outlay Projects to reimburse for construction advancement.	12,730,450
The General Fund transferred to the Cafeteria Fund for use taxes and negative student account balances.	53,755
The General Fund transferred to the Deferred Maintenance Fund for emergency repairs at Handy site.	14,135
The Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Charter Schools Fund for construction advancement.	2,390,202
The Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Deferred Maintenance Fund for district match.	4,194,939
The Non-Major Charter Schools Fund transferred to the Non-Major Cafeteria Fund for negative student account balances.	474
Total	\$ 31,839,642

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	District-Wide	Total Governmental Activities	Total Fiduciary
Payroll	\$ 7,685,768	\$ -	\$ -	\$ 926,954	\$ 19,801	\$ -	\$ 8,632,523	\$ -
Construction	-	1,460,557	444,782	162,066	-	-	2,067,405	-
Vendors payable	2,597,023	-	-	2,023,781	106,967	-	4,727,771	-
Unmatured interest	-	-	-	-	-	229,454	229,454	-
Other liabilities	3,810,974	-	25,431	212,297	881	-	4,049,583	972
Due to fiduciary funds	-	-	-	-	-	127,192	127,192	-
Total	\$ 14,093,765	\$ 1,460,557	\$ 470,213	\$ 3,325,098	\$ 127,649	\$ 356,646	\$ 19,833,928	\$ 972

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2018 consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
State categorical sources	\$ 759,723	\$ -	\$ 759,723
Local sources	22,019	160,264	182,283
Total	\$ 781,742	\$ 160,264	\$ 942,006

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ -	\$ 188,000,000	\$ -	\$ 188,000,000	\$ -
Unamortized premium	-	7,120,226	-	7,120,226	237,341
Total general obligation bonds	-	195,120,226	-	195,120,226	237,341
Certificates of participation	24,848,145	9,620,000	2,889,920	31,578,225	3,095,010
Unamortized premium	-	459,376	-	459,376	17,668
Total certificates of participation	24,848,145	10,079,376	2,889,920	32,037,601	3,112,678
Retirement health benefits funding bonds	80,865,000	-	2,100,000	78,765,000	2,000,000
Capital leases	7,975,704	-	906,779	7,068,925	658,874
Compensated absences	4,293,789	-	200,241	4,093,548	-
Claims liability	5,051,000	561,000	-	5,612,000	-
Net pension liability	283,086,233	31,506,381	-	314,592,614	-
Total	\$ 406,119,871	\$ 237,266,983	\$ 6,096,940	\$ 637,289,914	\$ 6,008,893

Payments on the general obligation bonds are made in the Bond Interest and Redemption Fund. Payments on the 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, 2018

NOTE 8 – LONG-TERM DEBT (continued)

A. General Obligation Bonds

On November 8, 2016, the voters of the District authorized the issuance and sale of \$288,000,000 principal amount of bonds to finance specific acquisition and construction costs and pay the costs of issuance associated with the bonds. On June 7, 2018, the District issued Series A in the amount of \$188,000,000. The bonds have a final maturity to occur on August 1, 2047, with an interest rates ranging from 3.00 percent to 5.00 percent. As of June 30, 2018, the principal balance outstanding was \$188,000,000.

The bonds mature through 2048 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 4,062,236	\$ 4,062,236
2020	7,615,000	7,583,548	15,198,548
2021	2,520,000	6,979,625	9,499,625
2022	-	6,916,625	6,916,625
2023	-	6,916,625	6,916,625
2024 - 2028	5,210,000	34,106,625	39,316,625
2029 - 2033	16,000,000	31,540,625	47,540,625
2034 - 2038	30,685,000	27,132,944	57,817,944
2039 - 2043	49,470,000	20,474,269	69,944,269
2044 - 2048	76,500,000	8,153,800	84,653,800
Total	\$ 188,000,000	\$ 153,866,922	\$ 341,866,922

B. Certificates of Participation

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Certificates Outstanding</u>			<u>Certificates Outstanding June 30, 2018</u>
					<u>July 01, 2017</u>	<u>Additions</u>	<u>Deductions</u>	
2012 Refunding Certificates	September 27, 2012	June 1, 2024	2.500%	\$ 38,069,161	\$ 24,848,145	\$ -	\$ 2,889,920	\$ 21,958,225
2018 Financing Certificates	June 14, 2018	September 1, 2043	3.000% - 5.000%	9,620,000	-	9,620,000	-	9,620,000
					\$ 24,848,145	\$ 9,620,000	\$ 2,889,920	\$ 31,578,225

2012 Refunding Certificates

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, 2018, the principal balance outstanding was \$21,958,225.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

2018 Financing Certificates

On June 14, 2018, the Orange Schools Financing Corporation issued the 2018 Financing Certificates of Participation in the amount of \$9,620,000. The certificates have a final maturity to occur on September 1, 2043, with an interest rates ranging from 3.00 percent to 5.00 percent. Proceeds from the sale of the certificates were used to finance the construction and installation of the Fred Kelly Stadium at El Modena High School. As of June 30, 2018, the principal balance outstanding was \$9,620,000.

The 2012 refunding certificates and the 2018 financing certificates mature through 2044 as follows:

Year Ended June 30,	Principal		Interest		Total
2019	\$	3,095,010	\$	870,258	\$ 3,965,268
2020		3,531,831		920,418	4,452,249
2021		3,759,790		833,888	4,593,678
2022		3,996,316		740,498	4,736,814
2023		4,249,660		641,113	4,890,773
2024 - 2028		5,655,618		1,900,433	7,556,051
2029 - 2033		1,790,000		1,243,031	3,033,031
2034 - 2038		2,240,000		792,806	3,032,806
2039 - 2043		2,665,000		355,757	3,020,757
2044		595,000		10,784	605,784
Total	\$	31,578,225	\$	8,308,986	\$ 39,887,211

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

C. 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, 2018, the principal balance of \$78,765,000 remained outstanding.

The bonds mature through 2043 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,000,000	\$ 1,684,162	\$ 3,684,162
2020	2,000,000	1,640,504	3,640,504
2021	1,900,000	1,598,760	3,498,760
2022	2,700,000	1,557,190	4,257,190
2023	2,700,000	1,516,142	4,216,142
2024 - 2028	14,000,000	6,722,175	20,722,175
2029 - 2033	16,300,000	5,237,654	21,537,654
2034 - 2038	20,600,000	3,413,442	24,013,442
2039 - 2043	16,565,000	1,306,935	17,871,935
Total	<u>\$ 78,765,000</u>	<u>\$ 24,676,964</u>	<u>\$ 103,441,964</u>

D. 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>
2019	\$ 971,183
2020	894,611
2021	918,285
2022	943,144
2023	969,246
2024 - 2028	<u>4,034,397</u>
Total minimum lease payments	8,730,866
Less amount representing interest	<u>(1,661,941)</u>
Present value of minimum lease payments	<u>\$ 7,068,925</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (continued)

E. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$4,093,548. This amount is included as part of long-term liabilities in the government-wide financial statements.

F. 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, 2018, amounted to \$5,612,000, using a discount factor of two percent.

G. Net Pension Liability

The District's beginning net pension liability was \$283,086,233 and increased by \$31,506,381 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$314,592,614. See Note 11 for additional information regarding the net pension liability.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	Building 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	90,271	-	-	72,007	162,278
Prepaid expenditures	1,658,260	-	-	-	1,658,260
Total non-spendable	1,848,531	-	-	107,007	1,955,538
Restricted					
Educational programs	1,443,965	-	-	1,045,319	2,489,284
Capital projects	-	176,253,294	46,743,622	12,808,807	235,805,723
Debt service	-	-	-	14,203,225	14,203,225
All others	-	-	-	5,623	5,623
Total restricted	1,443,965	176,253,294	46,743,622	28,062,974	252,503,855
Committed					
Deferred maintenance	-	-	-	7,200,503	7,200,503
Total committed	-	-	-	7,200,503	7,200,503
Assigned					
Non-resident tuition	84,295	-	-	-	84,295
School site carryover	182,101	-	-	-	182,101
School site/department donations	1,048,535	-	-	-	1,048,535
Credential support contracts	44,057	-	-	-	44,057
MediCal Administration Activities	73,082	-	-	-	73,082
STRS/PERS increases (FY19-FY21)	9,433,879	-	-	-	9,433,879
School site lottery	127,917	-	-	-	127,917
Building Fund debt service	-	-	-	267,117	267,117
Textbooks	-	-	-	551,981	551,981
Reserve for economic uncertainties	-	-	-	908,593	908,593
Total assigned	10,993,866	-	-	1,727,691	12,721,557
Unassigned					
Reserve for economic uncertainties	8,681,829	-	-	-	8,681,829
Remaining unassigned	36,047,770	-	-	-	36,047,770
Total unassigned	44,729,599	-	-	-	44,729,599
Total	\$ 59,015,961	\$ 176,253,294	\$ 46,743,622	\$ 37,098,175	\$ 319,111,052

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, 2018

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Orange Unified School District’s defined benefit OPEB plan, Orange Unified School District Retiree Benefit Plan (the Plan) is described below. The Plan is a single employer defined benefit plan administered by the district through California’s Valued Trust (CVT), a jointly managed trust, on a pooled, self-insured basis. Employees and retirees may choose from a number of CVT Anthem Blue Cross medical/Rx PPO combinations, as well as several Kaiser North HMO options, Delta Dental, and VSP Vision. 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. 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.

B. OPEB Plan Fiduciary Net Position

Detailed information about the Plan’s fiduciary net position is available in the separately-issued the Plan Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by contacting the District.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

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

C. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below. (Some grandfathered certificated retirees receive additional benefits under a recent retirement incentive.)

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Applies to	Hired after 6/30/92	Hired after 6/30/92	Hired after 6/30/92
Benefit types provided	Medical, dental and vision	None	Medical, dental and vision
Duration of Benefits	To age 65		To age 65
Required Service	15 years		5 years
Minimum Age	55		55
Dependent Coverage	No		No
District Contribution %	100%***		100%***
District Cap	Active Single Cap		Active Single Cap

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Applies to	Hired before 7/1/92	Hired before 7/1/92	Hired before 7/1/92
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	Lifetime*	Lifetime*	Lifetime*
Required Service	15 years**	10 years	5 years
Minimum Age	55	50	50/55
Dependent Coverage	Yes (family)	Spouse****	Spouse****
District Contribution %	100%	100%***	100%***
District Cap	Same as active	Same as active	Same as active

*Employees have been offered various cash and benefit options in exchange for lifetime benefits. Some employees have accepted these offers and the valuation reflects the elected option.

**Employees hired prior to 7/1/91 had a 10 year service requirement and post-65 benefits limited to Medicare Supplemental

***Retiree contributions required for dependent coverage, where applicable

****Plus disabled dependents, where applicable

D. Contributions

The contribution requirements of Plan members and the Orange Unified School District are established and may be amended by the Orange Unified School District and the Orange Unified Education Association and the local California Service Employees Association. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

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

E. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	926
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>1,422</u>
Total number of participants**	<u>2,348</u>

*Information not provided

**As of the June 30, 2017 valuation date

F. Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2018, were as follows:

Total OPEB liability	\$ 97,902,044
Plan fiduciary net position	<u>(120,153,161)</u>
District's net OPEB liability (asset)	<u>\$ (22,251,117)</u>
Plan fiduciary net position as a percentage of total OPEB liability	122.73%

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

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

G. Actuarial Assumptions and Other Inputs

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

Economic assumptions:

Inflation	2.75%
Salary increases	2.75%
Investment rate of return	4.70%
Healthcare cost trend rates	4.00%

Non-economic assumptions:

Mortality:

Certificated	2009 CalSTRS Mortality Table
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees Table

Retirement rates:

Certificated	2009 CalSTRS Retirement Rates Table
Classified	Hired before 2013: 2009 CalPERS Retirement Rates for School Employees Table Hired after 2012: 2009 CalPERS 2%@60 Retirement Rates for Miscellaneous Employees adjusted to reflect minimum retirement age of 52

Vesting rates:

Certificated	100% at 15 years of service
Classified	100% at 15 years of service (classified employees hired after 6/30/92 no longer have District-paid retiree health benefits)
Management	100% at 5 years of service

The actuarial assumptions used in the June 30, 2017 valuation were based on a review of plan experience during the period July 1, 2017 to June 30, 2018.

The discount rate was based on the Bond Buyer 20 Bond Index. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

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

H. Changes in Net OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 1,870,425
Interest on total OPEB liability	4,435,360
Benefits payments	<u>(3,675,794)</u>
Net change in total OPEB liability	2,629,991
Total OPEB liability - beginning	<u>95,272,053</u>
Total OPEB liability - ending (a)	<u>\$ 97,902,044</u>
 Plan fiduciary net position	
Net investment income	\$ 4,854,486
Benefit payments	(3,675,794)
Administrative expenses	<u>(449,007)</u>
Net change in plan fiduciary net position	729,685
Plan fiduciary net position - beginning	<u>119,423,476</u>
Plan fiduciary net position - ending (b)	<u>\$ 120,153,161</u>
 District's net OPEB liability (asset) - ending (a) - (b)	<u>\$ (22,251,117)</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	122.7%
 Covered payroll	\$ 192,607,861
 District's net OPEB liability (asset) as a percentage of covered payroll	-11.6%

I. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Orange Unified School District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.70 percent) or one percentage point higher (5.70 percent) than the current discount rate:

	1% Decrease	Valuation Discount Rate	1% Increase
	(3.70%)	(4.70%)	(5.70%)
Net OPEB liability (asset)	\$ (14,251,415)	\$ (22,251,117)	\$ (29,264,362)

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

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

J. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Orange Unified School District, as well as what the District’s net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (3.00 percent) or one percentage point higher (5.00 percent) than the current healthcare cost trend rate:

	1% Decrease	Valuation Trend	1% Increase
	(3.00%)	Rate	(5.00%)
	<u> </u>	<u> </u>	<u> </u>
Net OPEB liability (asset)	\$ (34,649,424)	\$ (22,251,117)	\$ (7,621,597)

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

For the fiscal year ended June 30, 2018, the Orange Unified School District recognized OPEB expense of \$1,371,118. At June 30, 2018, the Orange Unified School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows
	of Resources
	<u> </u>
Differences between projected and actual earnings on plan investments	\$ 529,188
	<u>\$ 529,188</u>

The amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows
<u> </u>	of Resources
<u> </u>	<u> </u>
2019	\$ 132,297
2020	132,297
2021	132,297
2022	132,297
	<u>\$ 529,188</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

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

K. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in total OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

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	\$ 226,807,912	\$ 61,283,467	\$ 29,525,109	\$ 18,848,734
PERS Pension	87,784,702	27,947,194	1,918,602	12,134,040
Total	<u>\$ 314,592,614</u>	<u>\$ 89,230,661</u>	<u>\$ 31,443,711</u>	<u>\$ 30,982,774</u>

A. 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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. 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 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.

2. 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 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 2018, 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 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$18,425,894 for the year ended June 30, 2018.

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 \$11,472,219 to CalSTRS.

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

At June 30, 2018, 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	\$ 226,807,912
State's proportionate share of the net pension liability associated with the District	134,178,738
Total	\$ 360,986,650

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

A. 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)

The net pension liability was measured as of June 30, 2017, 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, 2016 and rolling forward the total pension liability to June 30, 2017. 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, 2017, the District’s proportion was 0.245 percent, which was a decrease of 0.013 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$18,848,734. In addition, the District recognized pension expense and revenue of \$3,856,478 for support provided by the State. At June 30, 2018, 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	\$ -	\$ 6,040,526
Differences between expected and actual experience	838,758	3,955,895
Changes in assumptions	42,018,815	
Changes in proportion and differences between District contributions and proportionate share of contributions	-	19,528,688
District contributions subsequent to the measurement date	18,425,894	-
	<u>\$ 61,283,467</u>	<u>\$ 29,525,109</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

A. 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)

The \$18,425,894 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, 2019. 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>
2019	\$ 7,142,929	\$ 9,886,474
2020	7,142,929	1,059,470
2021	7,142,929	4,317,749
2022	7,142,929	10,235,953
2023	7,142,929	2,592,115
2024	7,142,928	1,433,348
	<u>\$ 42,857,573</u>	<u>\$ 29,525,109</u>

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* 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 MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010–June 30, 2015.

ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	100%	

*20-year geometric average

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 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 (7.10 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 7.10 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 (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 333,026,021	\$ 226,807,912	\$ 140,604,719

Pension Plan Fiduciary Net Position

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

NOTE 11 – PENSION PLANS (continued)

B. 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 6.5% 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 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$7,549,236 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$87,784,702 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 and rolling forward the total pension liability to June 30, 2017. 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, 2017, the District’s proportion was 0.368 percent, which was a decrease of 0.008 percent from its proportion measured as of June 30, 2016.

ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. 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, 2018, the District recognized pension expense of \$12,134,040. At June 30, 2018, 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	\$ 3,036,750	\$ -
Differences between expected and actual experience	3,144,964	-
Changes in assumptions	12,822,337	1,033,556
Changes in proportion and differences between District contributions and proportionate share of contributions	1,393,907	885,046
District contributions subsequent to the measurement date	7,549,236	-
	<u>\$ 27,947,194</u>	<u>\$ 1,918,602</u>

The \$7,549,236 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, 2019. 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>
2019	\$ 6,510,419	\$ 1,918,602
2020	9,094,351	-
2021	6,456,112	-
2022	(1,662,924)	-
	<u>\$ 20,397,958</u>	<u>\$ 1,918,602</u>

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. 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, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

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, 2016, 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 adjusted to account for assumed administrative expenses.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. 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	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

*An expected inflation of 2.50% used for this period.
 **An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 7.15 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 (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 129,159,427	\$ 87,784,702	\$ 53,460,903

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – PENSION PLANS (continued)

B. 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, 2018.

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, 2018.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

C. Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
Capital Projects		
Canyon High Gym Repairs	\$ 24,400	August 2019
Canyon High Synthetic Track and Field	2,687,262	January 2019
Orange High Synthetic Track and Field	2,667,847	January 2019
Villa Park High Synthetic Track and Field	2,632,297	January 2019
IP Surveillance Camera and Security System	18,163	September 2018
District Office/Chapman Relocatable	8,800	October 2018
Measure S Projects		
Canyon High Science Center	2,823,708	December 2021
El Modena High Science Center	1,484,635	May 2020
Orange High Science Center	8,217,331	March 2020
Villa Park High Science Center	1,887,422	December 2020
IP Surveillance Camera and Security System	77,288	September 2018
Total	<u>\$ 22,529,153</u>	

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.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. 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 or inflows 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, 2018, the deferred amount on refunding was \$381,927.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred outflows related to pensions was \$89,230,661 and total deferred inflows related to pensions was \$31,443,711.

C. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred outflows related to other postemployment benefits was \$529,188.

NOTE 15 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District’s net OPEB liability in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 85,399,451
Restatement	(104,281,673)
Net Position - Beginning, as Restated	<u>\$ (18,882,222)</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**ORANGE UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 220,663,764	\$ 223,939,297	\$ 223,528,808	\$ (410,489)
Federal sources	11,819,825	15,111,873	13,870,850	(1,241,023)
Other state sources	36,178,360	41,098,223	40,525,313	(572,910)
Other local sources	6,115,213	6,637,868	7,519,705	881,837
Total Revenues	274,777,162	286,787,261	285,444,676	(1,342,585)
EXPENDITURES				
Certificated salaries	125,643,368	126,751,697	126,984,476	(232,779)
Classified salaries	45,669,293	46,778,488	46,655,608	122,880
Employee benefits	70,678,217	71,908,290	70,508,280	1,400,010
Books and supplies	11,932,340	12,802,869	10,776,984	2,025,885
Services and other operating expenditures	23,990,601	25,633,056	23,442,729	2,190,327
Capital outlay	-	117,566	111,039	6,527
Other outgo				
Excluding transfers of indirect costs	6,740,663	7,612,470	7,612,201	269
Transfers of indirect costs	(574,119)	(585,274)	(490,609)	(94,665)
Total Expenditures	284,080,363	291,019,162	285,600,708	5,418,454
Excess (Deficiency) of Revenues				
Over Expenditures	(9,303,201)	(4,231,901)	(156,032)	4,075,869
Other Financing Sources (Uses)				
Transfers out	(200)	(3,740,022)	(3,793,577)	(53,555)
Net Financing Sources (Uses)	(200)	(3,740,022)	(3,793,577)	(53,555)
NET CHANGE IN FUND BALANCE	(9,303,401)	(7,971,923)	(3,949,609)	4,022,314
Fund Balance - Beginning	64,329,688	62,965,570	62,965,570	-
Fund Balance - Ending	\$ 55,026,287	\$ 54,993,647	\$ 59,015,961	\$ 4,022,314

See accompanying note to required supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET) AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 1,870,425
Interest on total OPEB liability	4,435,360
Benefits payments	<u>(3,675,794)</u>
Net change in total OPEB liability	2,629,991
Total OPEB liability - beginning	<u>95,272,053</u>
Total OPEB liability - ending (a)	<u>\$ 97,902,044</u>
Plan fiduciary net position	
Net investment income	\$ 4,854,486
Benefit payments	(3,675,794)
Administrative expenses	<u>(449,007)</u>
Net change in plan fiduciary net position	729,685
Plan fiduciary net position - beginning	<u>119,423,476</u>
Plan fiduciary net position - ending (b)	<u>\$ 120,153,161</u>
District's net OPEB liability (asset) - ending (a) - (b)	<u>\$ (22,251,117)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	122.7%
Covered payroll	\$ 192,607,861
District's net OPEB liability (asset) as a percentage of covered payroll	-11.6%

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, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.245%	0.258%	0.265%	0.247%
District's proportionate share of the net pension liability	\$ 226,807,912	\$ 208,815,385	\$ 178,309,476	\$ 144,402,030
State's proportionate share of the net pension liability associated with the District	134,178,738	118,892,375	94,305,803	87,095,715
Total	<u>\$ 360,986,650</u>	<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	\$ 110,062,230
District's proportionate share of the net pension liability as a percentage of its covered payroll	173.1%	160.8%	145.7%	131.2%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.368%	0.376%	0.375%	0.349%
District's proportionate share of the net pension liability	\$ 87,784,702	\$ 74,270,848	\$ 55,217,596	\$ 39,608,976
District's covered payroll	\$ 46,740,641	\$ 45,081,117	\$ 41,508,908	\$ 36,626,106
District's proportionate share of the net pension liability as a percentage of its covered payroll	187.8%	164.7%	133.0%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 18,425,894	\$ 16,157,373	\$ 13,515,699	\$ 10,589,609
Contributions in relation to the contractually required contribution*	(18,425,894)	(16,157,373)	(13,515,699)	(10,589,609)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 132,092,488	\$ 131,030,288	\$ 129,820,436	\$ 122,389,401
Contributions as a percentage of covered payroll	13.95%	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, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 7,549,236	\$ 6,393,311	\$ 5,240,840	\$ 4,817,989
Contributions in relation to the contractually required contribution	(7,549,236)	(6,393,311)	(5,240,840)	(4,817,989)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 48,600,692	\$ 46,740,641	\$ 45,081,117	\$ 41,508,908
Contributions as a percentage of covered payroll	15.53%	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, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the net OPEB liability (asset), and the components of the net OPEB liability (asset) and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability (asset) as a percentage of covered-employee 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.

Changes in Benefit Terms

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

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

**ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code, as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 126,751,697	\$ 126,984,476	\$ 232,779
Other outgo			
Transfers of indirect costs	\$ (585,274)	\$ (490,609)	\$ 94,665

**SUPPLEMENTARY
INFORMATION**

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<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	\$ 6,069,362
Title II, Part A, Teacher Quality	84.367	14341	831,704
Title III, English Learner Student Program	84.365	14346	755,730
Indian Education	84.060	10011	16,252
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	4,857,592
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	49,783
IDEA Preschool Capacity Building, Part B, Sec 619	84.173A	13839	8,847
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	292,276
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	126,872
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE3-4-5)	84.027A	13682	414,529
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	1,575
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	16,972
Subtotal Special Education Cluster			<u>5,768,446</u>
IDEA Early Intervention Grants, Part C	84.181	23761	86,305
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	197,408
Total U. S. Department of Education			<u>13,725,207</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Basic	10.553	13525	2,703
School Breakfast Program - Needy	10.553	13526	1,082,012
National School Lunch Program	10.555	13391	4,094,564
USDA Commodities	10.555	*	632,487
Meal Supplements	10.555	*	163,421
Subtotal Child Nutrition Cluster			<u>5,975,187</u>
NSLP Equipment Assistance Grants	10.579	14906	15,015
Forest Reserve Funds	10.665	10044	37,327
Total U. S. Department of Agriculture			<u>6,027,529</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	522,355
Medi-Cal Administrative Activities	93.778	10060	207,730
Subtotal Medicaid			<u>730,085</u>
Total U. S. Department of Health & Human Services			<u>730,085</u>
Total Federal Expenditures			<u>\$ 20,482,821</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, 2018**

	Second Period Report <53C3155B>	Annual Report <011B0FBE>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	7,893.77	7,890.88
Extended Year Special Education	16.88	16.88
Special Education - Nonpublic Schools	3.92	4.51
Extended Year Special Education - Nonpublic Schools	0.21	0.21
Total TK/K through Third	7,914.78	7,912.48
Fourth through Sixth		
Regular ADA	6,173.28	6,168.53
Extended Year Special Education	9.52	9.52
Special Education - Nonpublic Schools	10.34	11.11
Extended Year Special Education - Nonpublic Schools	0.88	0.88
Total Fourth through Sixth	6,194.02	6,190.04
Seventh through Eighth		
Regular ADA	2,196.71	2,195.49
Extended Year Special Education	3.63	3.63
Special Education - Nonpublic Schools	4.86	5.59
Extended Year Special Education - Nonpublic Schools	0.68	0.68
Community Day School	1.34	2.89
Total Seventh through Eighth	2,207.22	2,208.28
Ninth through Twelfth		
Regular ADA	8,454.91	8,406.16
Extended Year Special Education	10.46	10.46
Special Education - Nonpublic Schools	21.65	22.44
Extended Year Special Education - Nonpublic Schools	2.65	2.65
Community Day School	28.59	30.53
Total Ninth through Twelfth	8,518.26	8,472.24
TOTAL SCHOOL DISTRICT	24,834.28	24,783.04

**ORANGE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA), continued
 FOR THE YEAR ENDED JUNE 30, 2018**

EL RANCHO CHARTER SCHOOL

	Second Period Report <77547EC4>	Annual Report <AB759D40>
CHARTER SCHOOL		
Seventh through Eighth		
Regular ADA	1,162.23	1,159.98
Special Education - Nonpublic Schools	3.98	4.44
Extended Year Special Education - Nonpublic Schools	0.41	0.41
Total Seventh through Eighth	1,166.62	1,164.83
TOTAL CHARTER SCHOOL	1,166.62	1,164.83
CLASSROOM-BASED CHARTER SCHOOL		
Classroom-based Seventh through Eighth		
Regular ADA	1,161.67	1,159.55
Total Classroom-based Seventh through Eighth	1,161.67	1,159.55
TOTAL CLASSROOM-BASED CHARTER SCHOOL	1,161.67	1,159.55

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	Minutes Requirement	2017-18		Status
		Actual Minutes	Number of Days	
Kindergarten	36,000	50,550	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	62,014	180	Complied
Grade 8	54,000	62,014	180	Complied
Grade 9	64,800	64,801	180	Complied
Grade 10	64,800	64,801	180	Complied
Grade 11	64,800	64,801	180	Complied
Grade 12	64,800	64,801	180	Complied

EL RANCHO CHARTER SCHOOL

Grade Level	Minutes Requirement	2017-18		Status
		Actual Minutes	Number of Days	
Grade 7	54,000	63,852	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, 2018**

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 296,305,516	\$ 285,444,673	\$ 278,519,905	\$ 281,438,014
Expenditures And Other Financing Uses	299,834,198	289,394,282	294,844,520	282,117,582
Net change in Fund Balance	\$ (3,528,682)	\$ (3,949,609)	\$ (16,324,615)	\$ (679,568)
Ending Fund Balance	\$ 55,487,279	\$ 59,015,961	\$ 62,965,570	\$ 79,290,185
Available Reserves*	\$ 44,096,864	\$ 44,729,599	\$ 45,455,063	\$ 56,851,140
Available Reserves As A Percentage Of Outgo	14.71%	15.46%	15.42%	20.15%
Long-term Debt	\$ 631,281,021	\$ 637,289,914	\$ 406,119,871	\$ 361,802,969
Average Daily Attendance At P-2	24,350	24,834	25,301	25,840

The General Fund balance has decreased by \$20,274,224 over the past two years. The fiscal year 2018-19 budget projects a further decrease of \$3,528,682. 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 2018-19 fiscal year. Total long-term obligations have increased by \$275,486,945 over the past two years.

Average daily attendance has decreased by 1,006 ADA over the past two years. Additional decrease of 484 ADA is anticipated during the 2018-19 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, 2018**

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements for the year ended June 30, 2018.

**ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

Charter #	Charter School	Status	Included in Audit Report
0445	El Rancho Charter School	Active	Yes
0066	Santiago Middle School	Active	No

**ORANGE UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2018**

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Cash and investments	\$ 1,585,606	\$ 434	\$ 1,373,210	\$ 541,963
Accounts receivable	173,216	144	402,566	266,660
Due from other funds	673,649	-	985	187,013
Stores inventory	-	-	-	72,007
Total Assets	\$ 2,432,471	\$ 578	\$ 1,776,761	\$ 1,067,643
LIABILITIES				
Accrued liabilities	\$ 282,055	\$ 72	\$ 467,078	\$ 666,491
Due to other funds	397,725	505	104,101	313,522
Unearned revenue	-	-	160,264	-
Total Liabilities	679,780	577	731,443	980,013
FUND BALANCES				
Non-spendable	25,000	-	-	82,007
Restricted	-	1	1,045,318	5,623
Committed	-	-	-	-
Assigned	1,727,691	-	-	-
Total Fund Balances	1,752,691	1	1,045,318	87,630
Total Liabilities and Fund Balance	\$ 2,432,471	\$ 578	\$ 1,776,761	\$ 1,067,643

See accompanying note to supplementary information.

ORANGE UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET, continued
JUNE 30, 2018

Deferred Maintenance Fund	Capital Facilities Fund	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Debt Service Fund	Non-Major Governmental Funds
\$ 4,750,073	\$ 8,701,786	\$ 4,180,232	\$ 6,542,950	\$ 7,650,337	\$ 35,326,591
7,972	11,765	5,675	-	9,938	877,936
4,261,209	-	-	-	-	5,122,856
-	-	-	-	-	72,007
\$ 9,019,254	\$ 8,713,551	\$ 4,185,907	\$ 6,542,950	\$ 7,660,275	\$ 41,399,390
\$ 1,818,751	\$ 4,707	\$ 85,944	\$ -	\$ -	\$ 3,325,098
-	-	-	-	-	815,853
-	-	-	-	-	160,264
1,818,751	4,707	85,944	-	-	4,301,215
-	-	-	-	-	107,007
-	8,708,844	4,099,963	6,542,950	7,660,275	28,062,974
7,200,503	-	-	-	-	7,200,503
-	-	-	-	-	1,727,691
7,200,503	8,708,844	4,099,963	6,542,950	7,660,275	37,098,175
\$ 9,019,254	\$ 8,713,551	\$ 4,185,907	\$ 6,542,950	\$ 7,660,275	\$ 41,399,390

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, 2018**

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
LCFF sources	\$ 8,796,218	\$ -	\$ -	\$ -
Federal sources	155,617	-	-	5,990,202
Other state sources	1,378,255	7,138	1,584,655	407,367
Other local sources	696,833	1,125	6,889,388	1,512,783
Total Revenues	11,026,923	8,263	8,474,043	7,910,352
EXPENDITURES				
Current				
Instruction	6,059,371	7,015	6,163,469	-
Instruction-related services				
Instructional supervision and administration	129,339	-	247,912	-
Instructional library, media, and technology	200,817	-	2,720	-
School site administration	1,808,903	956	1,354,515	-
Pupil services				
Home-to-school transportation	96,411	-	-	-
Food services	-	-	-	7,881,416
All other pupil services	266,136	-	154,025	-
General administration				
All other general administration	153,789	291	252,394	237,924
Plant services	831,074	-	50,815	1,745
Facilities acquisition and maintenance	3,262,992	-	-	-
Ancillary services	23,996	-	-	-
Community services	2,040	-	-	-
Transfers to other agencies	144,537	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	12,979,405	8,262	8,225,850	8,121,085
Excess (Deficiency) of Revenues				
Over Expenditures	(1,952,482)	1	248,193	(210,733)
Other Financing Sources (Uses)				
Transfers in	2,390,202	-	-	54,229
Other sources	-	-	-	-
Transfers out	(474)	-	-	-
Net Financing Sources (Uses)	2,389,728	-	-	54,229
NET CHANGE IN FUND BALANCE	437,246	1	248,193	(156,504)
Fund Balance - Beginning	1,315,445	-	797,125	244,134
Fund Balance - Ending	\$ 1,752,691	\$ 1	\$ 1,045,318	\$ 87,630

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, 2018**

Deferred Maintenance Fund	Capital Facilities Fund	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Debt Service Fund	Non-Major Governmental Funds
\$ 66,270	\$ -	\$ -	\$ -	\$ -	\$ 8,862,488
-	-	-	-	-	6,145,819
-	-	-	-	-	3,377,415
109,861	1,705,417	54,608	-	5,305,202	16,275,217
176,131	1,705,417	54,608	-	5,305,202	34,660,939
-	-	-	-	-	12,229,855
-	-	-	-	-	377,251
-	-	-	-	-	203,537
-	-	-	-	-	3,164,374
-	-	-	-	-	96,411
-	-	-	-	-	7,881,416
-	-	-	-	-	420,161
-	-	-	-	-	644,398
5,002,234	-	-	-	-	5,885,868
481,857	22,928	147,583	-	-	3,915,360
-	-	-	-	-	23,996
-	-	-	-	-	2,040
-	-	-	-	-	144,537
-	-	-	-	2,889,920	2,889,920
-	-	-	577,276	603,142	1,180,418
5,484,091	22,928	147,583	577,276	3,493,062	39,059,542
(5,307,960)	1,682,489	(92,975)	(577,276)	1,812,140	(4,398,603)
4,209,074	-	-	-	-	6,653,505
-	-	-	7,120,226	-	7,120,226
-	-	-	-	-	(474)
4,209,074	-	-	7,120,226	-	13,773,257
(1,098,886)	1,682,489	(92,975)	6,542,950	1,812,140	9,374,654
8,299,389	7,026,355	4,192,938	-	5,848,135	27,723,521
\$ 7,200,503	\$ 8,708,844	\$ 4,099,963	\$ 6,542,950	\$ 7,660,275	\$ 37,098,175

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2018**

The Orange Unified School District is located in the central portion of Orange County. 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. 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.

GOVERNING BOARD

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

DISTRICT ADMINISTRATORS

Gunn Marie Hansen, Ph.D.
Superintendent

Anne Truex
Interim Assistant Superintendent, Educational Services

David Rivera
Assistant Superintendent, Business Services/CBO

Ed Kisse
Assistant Superintendent, Human Resources

Ron Lebs
Assistant Superintendent, Facilities & Planning

**ORANGE UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2018**

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, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 20,016,669
Medi-Cal Billing Option	93.778	396,923
Medi-Cal Administrative Activities	93.778	69,229
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$20,482,821</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, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

ORANGE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2018

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, 2018, 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 29, 2018.

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

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 29, 2018

**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, 2018. 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, 2018.

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 29, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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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 *2017-2018 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, 2018, 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 *2017-2018 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.

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, 2018.

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:

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
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
Apprenticeship: Related and Supplemental Instruction	Not applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After/Before 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
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 29, 2018

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**ORANGE UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>10.553, 10.555</u>	<u>Child Nutrition Cluster</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, 2018**

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, 2018.

ORANGE UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018.

**ORANGE UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018.

ORANGE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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