TUSTIN UNIFIED SCHOOL DISTRICT

ORANGE COUNTY

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2019

TUSTIN UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2019
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Tustin Unified School District
Tustin, 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 Tustin Unified School District, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.* 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.

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 Tustin Unified School District, as of June 30, 2019, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net OPEB liability-MPP Program, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 66 to 69 and the schedule of expenditures of federal awards on page 70 are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 65 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 1, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro + Nigro, PC.

Murrieta, California
December 1, 2019

This discussion and analysis of Tustin Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's government-wide net position consisting of the entire activities of the District except fiduciary activities increased by roughly $12.3 million or 2.8% over the course of the year.
- Overall government-wide revenues were $312.8 million.
- The total cost of basic programs was $300.5 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just $241.1 million.
- The District increased its outstanding long-term debt by $703,000 or 0.3%. This was primarily due to actuarially determined increases to OPEB and workers compensation.
- Average daily attendance (ADA) in grades K-12 decreased by 263, or 1.13%.
- Governmental funds increased by $18.3 million, or 7.6%.
- Reserves for the General Fund remained consistent.

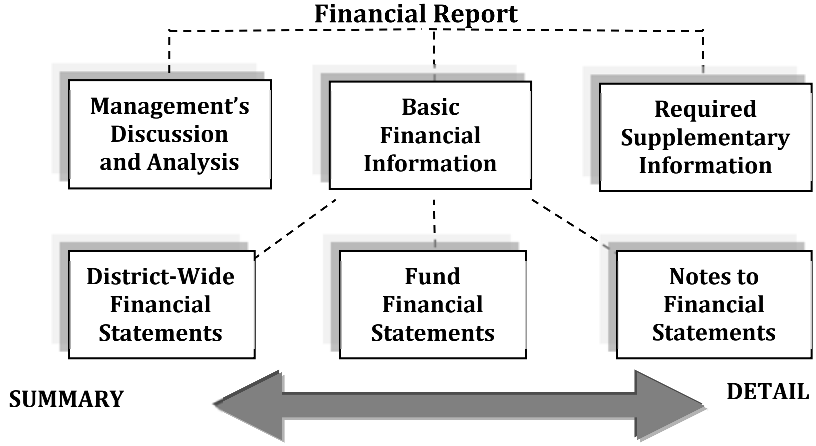
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - The *fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Tustin Unified School District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements
The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements
The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

- ***Fiduciary funds*** – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2019, than it was the year before – increasing 2.8% to $446.1 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase
	2019	**2018**	**(Decrease)**
Assets			
Current assets	$ 293,623,367	$ 261,044,839	$ 32,578,528
Capital assets	612,862,065	609,478,605	3,383,460
Total assets	906,485,432	870,523,444	35,961,988
Deferred outflows of resources	84,182,637	85,860,578	(1,677,941)
Liabilities			
Current liabilities	37,986,772	23,773,087	14,213,685
Long-term liabilities	236,991,015	236,287,983	703,032
Net pension liability	259,147,187	252,891,484	6,255,703
Total liabilities	534,124,974	512,952,554	21,172,420
Deferred inflows of resources	10,459,132	9,646,955	812,177
Net position			
Net investment in capital assets	457,270,577	453,748,875	3,521,702
Restricted	123,409,850	110,758,682	12,651,168
Unrestricted	(134,596,464)	(130,723,044)	(3,873,420)
Total net position	$ 446,083,963	$ 433,784,513	$ 12,299,450

Changes in net position, governmental activities. The District's total revenues increased 5.5% to $312.8 million (See Table A-2). The increase is due primarily to higher federal and state aid.

The total cost of all programs and services increased 2.0% to $300.5 million. The District's expenses are predominantly related to educating and caring for students, 73.2%. The purely administrative activities of the District accounted for just 4.3% of total costs. A significant contributor to the increase in costs was increased spending in plant services.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2019	**2018**	
Revenues			
Program Revenues:			
Charges for services	$ 2,613,289	$ 2,730,549	$ (117,260)
Operating grants and contributions	53,481,133	50,009,224	3,471,909
Capital grants and contributions	3,302,254	5,930,954	(2,628,700)
General Revenues:			
Property taxes	157,266,576	149,445,150	7,821,426
Federal and state aid not restricted	81,901,981	75,795,748	6,106,233
Other general revenues	14,219,615	12,652,399	1,567,216
Total Revenues	312,784,848	296,564,024	16,220,824
Expenses			
Instruction-related	189,159,382	192,265,214	(3,105,832)
Pupil services	30,671,729	28,939,374	1,732,355
Administration	12,819,858	12,420,691	399,167
Plant services	38,417,917	31,005,000	7,412,917
All other activities	29,416,512	29,976,240	(559,728)
Total Expenses	300,485,398	294,606,519	5,878,879
Increase (decrease) in net position	$ 12,299,450	$ 1,957,505	$ 10,341,945
Total Net Position	$ 446,083,963	$ 433,784,513	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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 $258.8 million, which is above last year's ending fund balance of $240.5 million. The primary cause of the increased fund balance is revenue from LCFF.

Table A-3: The District's Fund Balances

	Fund Balances				
	July 1, 2018	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2019
Fund					
General Fund	$ 81,605,919	$ 280,585,412	$ 267,116,554	$ (5,210,328)	$ 89,864,449
Adult Education Fund	1,341,135	1,940,790	1,533,917	-	1,748,008
Child Development Fund	680,781	2,614,803	2,572,276	1,004	724,312
Cafeteria Fund	2,565,481	7,335,786	8,151,372	-	1,749,895
Deferred Maintenance Fund	9,524,990	3,568,578	1,836,443	-	11,257,125
Special Reserve Fund (Other Than Capital Outlay)	7,893,576	156,191	-	-	8,049,767
Building Fund	16,120,712	912,967	10,393,916	-	6,639,763
Capital Facilities Fund	17,598,790	2,853,601	698,742	-	19,753,649
County School Facilities Fund	39,594,489	4,158,411	954,880	-	42,798,020
Special Reserve Fund (Capital Outlay)	15,684,158	-	1,860,048	5,209,324	19,033,434
Capital Outlay Fund for Blended Component Units	29,210,782	19,288,833	10,883,842	421,491	38,037,264
Bond Interest and Redemption Fund	11,076,855	14,291,307	14,013,313	-	11,354,849
Self-Insurance Fund	7,644,548	159,715	4,587	-	7,799,676
	$ 240,542,216	$ 337,866,394	$ 320,019,890	$ 421,491	$ 258,810,211

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by $14.1 million primarily to reflect federal and state budget actions
- Expenses – decreased about $2.4 million as a result of district wide budget actions.

The District's final budget and actual results for the General Fund show that revenues would exceed expenditures by about $13.5 million. Actual revenues were $7.8 million more than anticipated, and expenditures were equally $7.8 million more than budgeted because of the STRS and PERS SB90 amount. The surplus amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2019, that will be carried over into the 2019-20 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018-19 the District had invested $19.9 million in new capital assets, related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded $16.4 million.

Table A-4: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities 2019	Governmental Activities 2018	Variance Increase (Decrease)
Land	$ 176,147,527	$ 176,147,527	$ -
Improvement of sites	44,859,297	47,447,939	(2,588,642)
Buildings	361,526,701	361,781,935	(255,234)
Equipment	10,670,171	10,576,912	93,259
Construction in progress	19,658,369	13,524,292	6,134,077
Total	$ 612,862,065	$ 609,478,605	$ 3,383,460

Long-Term Debt

At year-end the District had $237.0 million in general obligation bonds, workers' compensation claims, compensated absences, and other postemployment benefits – an increase of 0.3% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities 2019	Governmental Activities 2018	Variance Increase (Decrease)
General obligation bonds	$ 194,590,740	$ 202,322,631	$ (7,731,891)
Workers' compensation claims	6,728,009	5,325,973	1,402,036
Compensated absences	1,147,859	1,109,470	38,389
Other postemployment benefits	34,524,407	27,529,909	6,994,498
Total	$ 236,991,015	$ 236,287,983	$ 703,032

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

GASB 68

In 2015, the District implemented the new required pension standard known as "GASB 68". This standard requires government entities across the country to change the method of accounting and reporting for pensions. Before GASB 68, the District reported pension expense based solely on annual contributions to CalSTRS and CalPERS. While the District continues that practice within its governmental funds, there are new requirements for how those expenditures are measured within the "government-wide" financial statements. While the governmental funds continue to use the "modified accrual" basis of accounting, the "government-wide" financial statements use the "full accrual" accounting method. Therefore, pension expense is based on a new measure which requires the District to measure its "proportionate share" of the *expenses, net pension liability, deferred outflows of resources, and deferred inflows of resources* that exist within the CalSTRS and CalPERS pension plans' financial statements. These financial statement elements are unique in that the District has no control over them. The $259 million *net pension liability* represents the District's 0.2012% share of the total CalSTRS liability and 0.2783% share of the total CalPERS liability. The impact of this new liability is not felt in the General Fund and does not affect reserves, other than the fact that the employer contribution rates for CalSTRS and CalPERS are projected to increase significantly over the next few years to help reduce the overall pension plan unfunded liabilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Legislature passed the final budget package on June 13, 2019. The Governor signed the *2019-20 Budget Act* and 15 other budget-related bills on June 27, 2019.

Major Features of the 2019-20 Spending Plan

Makes $5.9 Billion in Additional Unfunded Liability Payments

Teachers, administrators, and other certificated employees of school districts earn pension benefits from the California State Teachers' Retirement System (CalSTRS). Other school district employees, such as clerical staff, also earn pension benefits administered by California Public Employees' Retirement System (CalPERS). The state and school districts each have full responsibility for their respective CalPERS' unfunded liabilities associated with their own employees. In the case of CalSTRS, the state and school districts share responsibility for the system's total unfunded liability (about one-third is the responsibility of the state and two-thirds of the districts).

The spending plan allocates $5.9 billion General Fund to pay down unfunded pension liabilities on behalf of both the state and school districts (some of which is counted toward the state's Proposition 2 debt payment requirements). In particular, the spending plan dedicates:

- ***$3.6 Billion to Address State's Unfunded Liabilities.*** The spending plan uses $2.5 billion in General Fund monies to pay down the state's CalPERS unfunded liability. The spending plan also devotes $1.1 billion General Fund to reduce the state's share of the CalSTRS unfunded liability, as part of the state's Proposition 2 debt payment requirements.
- ***$2.3 Billion to Address School Districts' Unfunded Liabilities.*** The spending plan also devotes $1.6 billion General Fund to reduce the school districts' share of the CalSTRS unfunded liability and $660 million General Fund to address the school districts' CalPERS unfunded liability.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-14 Education

Provides a Few Notable Ongoing Proposition 98 Augmentations
Under the spending plan, Proposition 98 funding for 2019-20 increases $2.9 billion (3.7 percent) from the revised 2018-19 level. The spending plan devotes the largest share of this increase—$2 billion—to school districts to cover changes in student attendance and provide a 3.26 percent cost-of-living adjustment (COLA) for the Local Control Funding Formula (general purpose per-student funding). The budget also provides two augmentations related to special education: (1) $493 million for school districts based on the number of three- and four-year old children identified with disabilities affecting their education and (2) $153 million for special education agencies with average or below average per-pupil funding rates.

Pays a Portion of Districts' Pension Costs for the Next Two Years
The spending plan also provides additional monies to school districts outside of the Proposition 98 funding requirement by paying a portion of districts' pension costs for the next two years. School districts' pension contribution rates for both CalPERS and CalSTRS have been rising and are set to continue increasing for at least the next few years. For CalSTRS, the budget provides $606 million for the state to pay a portion of districts' costs (reducing district contribution rates by about 1 percent of payroll in 2019-20 and 2020-21). Similarly, the budget provides $244 million for the state to cover a portion of districts' CalPERS costs (reducing district rates by about 1 percent of payroll in 2019-20 and 2020-21). Although district pension rates will continue to rise, the increases will be slower than previously projected.

All of these factors were considered in preparing the Tustin Unified School District budget for the 2019-20 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (714) 730-7301.

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Net Position
June 30, 2019

	Total Governmental Activities
ASSETS	
Cash	$ 274,497,257
Investments	1,295
Accounts receivable	18,851,481
Inventories	273,334
Capital assets:	
Non-depreciable assets	195,805,896
Depreciable assets	597,809,766
Less accumulated depreciation	(180,753,597)
Total assets	906,485,432
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on refunding	8,590,709
Deferred outflows from OPEB	4,920,327
Deferred outflows from pensions	70,671,601
Total deferred outflows of resources	84,182,637
LIABILITIES	
Accounts payable	36,771,071
Unearned revenue	1,215,701
Long-term liabilities:	
Portion due or payable within one year	8,761,792
Portion due or payable after one year	228,229,223
Net pension liability	259,147,187
Total liabilities	534,124,974
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	9,808,536
Deferred inflows from OPEB	650,596
Total deferred inflows of resources	10,459,132
NET POSITION	
Net investment in capital assets	457,270,577
Restricted for:	
Capital projects	81,585,103
Debt service	11,354,849
Categorical programs	23,741,889
Workers' compensation claims	6,728,009
Unrestricted	(134,596,464)
Total net position	$ 446,083,963

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:					
Instructional services:					
Instruction	$ 159,777,617	$ 16,338	$ 16,927,866	$ 3,302,254	$ (139,531,159)
Instruction-related services:					
Supervision of instruction	11,491,868	5,284	2,006,499	-	(9,480,085)
Instructional library, media and technology	1,607,534	-	(287)	-	(1,607,821)
School site administration	16,282,363	7,066	84,005	-	(16,191,292)
Pupil support services:					
Home-to-school transportation	5,740,403	-	-	-	(5,740,403)
Food services	8,002,248	1,882,296	5,022,072	-	(1,097,880)
All other pupil services	16,929,078	6,505	3,706,255	-	(13,216,318)
General administration services:					
Data processing services	2,569,934	-	-	-	(2,569,934)
Other general administration	10,249,924	67,109	1,406,448	-	(8,776,367)
Plant services	38,417,917	-	25,250	-	(38,392,667)
Ancillary services	1,119,292	-	1,063,756	-	(55,536)
Community services	1,477,181	-	868,243	-	(608,938)
Interest on long-term debt	6,872,589	628,691	-	-	(6,243,898)
Other outgo	3,503,875	-	22,371,026	-	18,867,151
Depreciation (unallocated)	16,443,575	-	-	-	(16,443,575)
Total Governmental Activities	$ 300,485,398	$ 2,613,289	$ 53,481,133	$ 3,302,254	(241,088,722)

General Revenues:	
Property taxes	157,266,576
Federal and state aid not restricted to specific purpose	81,901,981
Interest and investment earnings	2,819,712
Interagency revenues	550,863
Miscellaneous	10,849,040
Total general revenues	253,388,172
Change in net position	12,299,450
Net position - July 1, 2018	433,784,513
Net position - June 30, 2019	$ 446,083,963

TUSTIN UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2019

	General Fund	Building Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	$ 118,648,577	$ 15,726,199	$ 42,716,894	$ 43,734,075	$ 53,671,512	$ 274,497,257
Investments	-	-	-	-	1,295	1,295
Accounts receivable	9,378,422	30,837	83,268	7,209,232	1,939,399	18,641,158
Due from other funds	532,940	-	-	-	8,543,576	9,076,516
Inventories	188,549	-	-	-	84,785	273,334
Total Assets	$ 128,748,488	$ 15,757,036	$ 42,800,162	$ 50,943,307	$ 64,240,567	$ 302,489,560
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 9,817,870	$ 9,117,085	$ 2,142	$ 12,906,043	$ 1,543,992	$ 33,387,132
Due to other funds	8,543,576	188	-	-	532,752	9,076,516
Unearned revenue	1,215,701	-	-	-	-	1,215,701
Total Liabilities	19,577,147	9,117,273	2,142	$ 12,906,043	2,076,744	43,679,349
Fund Balances						
Nonspendable	338,549	-	-	-	84,785	423,334
Restricted	21,639,878	6,639,763	42,798,020	38,037,264	52,159,158	161,274,083
Committed	68,047,779	-	-	-	1,395,892	69,443,671
Assigned	11,257,125	-	-	-	724,312	11,981,437
Unassigned	7,888,010	-	-	-	7,799,676	15,687,686
Total Fund Balances	109,171,341	6,639,763	42,798,020	38,037,264	62,163,823	258,810,211
Total Liabilities and Fund Balances	$ 128,748,488	$ 15,757,036	$ 42,800,162	$ 50,943,307	$ 64,240,567	$ 302,489,560

TUSTIN UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019

Total fund balances - governmental funds		$ 258,810,211
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
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 at historical cost:	793,615,662	
Accumulated depreciation:	(180,753,597)	
Net:		612,862,065
Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were:		8,590,709
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 unmatured interest owing at the end of the period was:		(3,383,939)
In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned.		210,323
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 government-wide statements, consist of:		
General obligation bonds payable	194,590,740	
Workers' compensation claims	6,728,009	
Compensated absences	1,147,859	
Other postemployment benefits	34,524,407	
Total		(236,991,015)
The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements.		(259,147,187)
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 relating to pensions	70,671,601	
Deferred inflows of resources relating to pensions	(9,808,536)	
Net:		60,863,065
In governmental funds, deferred outflows and deferred inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows/(inflows) of resources relating to OPEB are reported.		
Deferred outflows of resources related to OPEB	4,920,327	
Deferred inflows of resources relating to OPEB	(650,596)	
		4,269,731
Total net position - governmental activities		$ 446,083,963

TUSTIN UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General Fund	Building Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	$ 213,087,871	$ -	$ -	$ -	880,000	$ 213,967,871
Federal sources	8,735,791	-	-	-	6,218,606	14,954,397
Other state sources	48,916,074	15,112	3,302,254	-	2,878,947	55,112,387
Other local sources	13,570,445	897,855	856,157	19,288,833	19,218,449	53,831,739
Total Revenues	284,310,181	912,967	4,158,411	19,288,833	29,196,002	337,866,394
EXPENDITURES						
Current:						
Instruction	167,842,026	-	-	-	1,907,542	169,749,568
Instruction-related services:						
Supervision of instruction	12,406,413	-	-	-	14,312	12,420,725
Instructional library, media and technology	1,364,576	-	-	-	-	1,364,576
School site administration	16,173,307	-	-	-	762,451	16,935,758
Pupil support services:						
Home-to-school transportation	5,731,871	-	-	-	-	5,731,871
Food services	19,349	-	-	-	7,810,869	7,830,218
All other pupil services	17,067,152	-	-	-	120,793	17,187,945
Ancillary services	1,131,939	-	-	-	-	1,131,939
Community services	405,647	-	-	-	1,084,104	1,489,751
Enterprise activities	-	-	-	-	4,587	4,587
General administration services:						
Data processing services	2,442,277	-	-	-	-	2,442,277
Other general administration	9,889,969	-	-	-	-	9,889,969
Plant services	24,940,725	-	-	-	20	24,940,745
Transfers of indirect costs	(445,739)	-	-	-	445,739	-
Capital Outlay	6,507,039	10,393,916	954,880	10,883,842	2,670,525	31,410,202
Intergovernmental transfers	3,476,446	-	-	-	-	3,476,446
Debt Service:						
Principal	-	-	-	-	6,170,680	6,170,680
Interest	-	-	-	-	7,842,633	7,842,633
Total Expenditures	268,952,997	10,393,916	954,880	10,883,842	28,834,255	320,019,890
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,357,184	(9,480,949)	3,203,531	8,404,991	361,747	17,846,504
OTHER FINANCING SOURCES (USES)						
Interfund transfers in	-	-	-	-	5,210,328	5,210,328
Interfund transfers out	(5,210,328)	-	-	-	-	(5,210,328)
Transfers from fiduciary fund	-	-	-	421,491	-	421,491
Total Other Financing Sources and Uses	(5,210,328)	-	-	421,491	5,210,328	421,491
Net Change in Fund Balances	10,146,856	(9,480,949)	3,203,531	8,826,482	5,572,075	18,267,995
Fund Balances, July 1, 2018	99,024,485	16,120,712	39,594,489	29,210,782	56,591,748	240,542,216
Fund Balances, June 30, 2019	$ 109,171,341	$ 6,639,763	$ 42,798,020	$ 38,037,264	$ 62,163,823	$ 258,810,211

TUSTIN UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

Total net change in fund balances - governmental funds		$ 18,267,995
Amounts reported for governmental *activities* in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is 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	19,853,685	
Depreciation expense	(16,443,575)	
Net:		3,410,110
In governmental funds, repayments of long-term debt and refundings are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment and refundings of the principal portion of long-term debt were:		6,170,680
In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period that it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:		1,261,792
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 that 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:		124,589
In governmental funds, accreted interest on general obligation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. The difference between accreted interest earned and paid during the year was:		299,419
In governmental funds, interest subsidies received from Build America Bonds are recognized in the period that they are received. In the government-wide statements, they are recognized in the period that they are earned. The difference between interest received and earned during the year was:		(27,743)
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:		(26,650)
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions were:		(2,140,912)
The amounts paid to the refunded bond escrow agent in excess of the refunded bond at the time of payment are recorded as deferred amounts on the refunding and are amortized over the life of the liability. Deferred amounts on refunding exceeded the amount amortized during the year by:		(722,066)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(12,877,339)
In the statement of activities, certain liabilities such as compensated absences and workers' compensation claims liabilities, are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*).		(38,389)
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources in addition to compensated absences and long-term debt. This year, expenses incurred for such obligations were:		(1,402,036)
Change in net position of governmental activities		$ 12,299,450

TUSTIN UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2019

	Agency Funds			
	Student Body Funds	IRC Section 125 Fund	Debt Service Fund for Special Tax Bonds	Totals
Assets				
Cash	$ 629,032	$ 60,000	$ 8,181,501	$ 8,870,533
Investments	-	-	28,820,075	28,820,075
Other assets	(1,477)	-	8,653,148	8,651,671
Total Assets	$ 627,555	$ 60,000	$ 45,654,724	$ 46,342,279
Liabilities				
Due to student groups	$ 627,555	$ -	$ -	$ 627,555
Accounts payable	-	-	5,683,287	5,683,287
Due to employees	-	60,000	-	60,000
Due to bondholders	-	-	39,971,437	39,971,437
Total Liabilities	$ 627,555	$ 60,000	$ 45,654,724	$ 46,342,279

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tustin Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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 Tustin Unified School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Tustin USD Financing Authority (the "Authority") and Tustin USD Financing Corporation (the "Corporation") financial activity are presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by the Authority and the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority, but not for the Corporation.

The Tustin Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements
The statement of net position and the statement of activities display information about the primary government (the District) and its component units. 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 revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements
The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category – *governmental* 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 nonmajor funds.

Major Governmental Funds
The District maintains the following major governmental funds:

General Fund: This is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund. The District also maintains a Deferred Maintenance Fund and a Special Reserve Fund for Other Than Capital Outlay Projects. The Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects are not substantially composed of restricted or committed revenue sources. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds is being reported within the General Fund.

County School Facilities Fund: This fund is used primarily to account 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 17070.10 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).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds

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

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues that are restricted or committed for adult education programs.

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs.

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093).

Special Reserve Fund (Insurance Fund): This fund is used to account for funds set aside for the District's workers' compensation, medical and dental insurance programs. This fund is reported as an internal service fund on the District's Annual Financial and Budget report.

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

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

Capital Facilities Fund: This fund is used to primarily account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* sections 17620-17626 and *Government Code* Section 65995 et seq.).

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). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49.

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.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code* sections 15125-15262).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Fiduciary Funds
Fiduciary 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. The District maintains the following fiduciary funds:

ASB Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

IRC Section 125: The District also maintains a Section 125 Employee Benefit Plan to hold funds that are collected on behalf of employees for benefits.

Debt Service Fund for Special Tax Bonds: This fund is used to account for the accumulation of resources for, and the repayment of, Community Facility District bonds, interest and related costs.

2. Measurement Focus, Basis of Accounting
The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resource or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The agency fund has no measurement focus and utilizes the accrual bases of accounting for reporting its assets and liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

C. 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 budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Cash and Cash Equivalents
The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items
Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets
Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. 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 combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

6. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program 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, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

7. Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Fund Balances
The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets -** This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

F. Minimum Fund Balance Policy

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The District's minimum reserve standard is 3% as per the recommended level for districts with less than 30,000 ADA (California Department of Education) or not less than two months of General Fund operating expenditures, or up to 17% of General Fund expenditures and other financing uses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the governing board has provided otherwise in its commitment or assignment actions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

I. New GASB Pronouncements

During the 2018-19 fiscal year, the following GASB Pronouncements became effective:

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

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

   The District has implemented the provisions of this Statement as of June 30, 2019.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement 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.

   This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

   This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

   For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

   The District has implemented the provisions of this Statement as of June 30, 2019.

J. Future Accounting Pronouncements
Other GASB pronouncements, which will be effective in future periods, are as follows:

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

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

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

3. In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

   This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

   This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

   The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

4. In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

   For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

   This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

   The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

5. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

   This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

5. (continued)
Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2019, are reported at fair value and consisted of the following:

	Rating	Governmental Activities/Funds	Fiduciary Funds
Pooled Funds:			
Cash in county treasury		$ 274,057,257	$ 8,181,501
Total Pooled Funds		274,057,257	8,181,501
Deposits:			
Cash on hand and in banks		290,000	629,032
Cash in revolving fund		150,000	60,000
Total Deposits		440,000	689,032
Total Cash		$ 274,497,257	$ 8,870,533
Investments:			
U.S. Bank- Treasury Money Market Funds	AAAm	$ 1,295	$ 28,820,075
Total Investments		$ 1,295	$ 28,820,075

Pooled Funds
In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 2 – CASH AND INVESTMENTS (continued)

Pooled Funds (continued)
Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2019, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits
Custodial credit risk 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. Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public 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, 2019, $1,155,891 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2019, consist of the following:

		Maturity		
	Fair Value	Less Than One Year	One Year Through Five Years	Fair Value Measurement
Investment maturities:				
U.S. Bank:				
U.S. Treasury Money Market Funds	$ 28,821,370	$ 28,821,370	$ -	Level 2
Total Investments	$ 28,821,370	$ 28,821,370	$ -	

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Credit Risk
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2019, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

Investments - Concentration of Credit Risk
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2019, the District had the following investments that represents more than five percent of the District's net investments.

U.S. Bank- Treasury Money Market Funds	100.0%

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

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

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

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

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

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Totals
Federal Government:						
Categorical aid programs	$ 4,490,720	$ -	$ -	$ -	$ 73,677	$ 4,564,397
Food service	-	-	-	-	1,185,068	1,185,068
State Government:						
Lottery	1,398,527	-	-	-	-	1,398,527
Categorical aid programs	1,155,151	-	-	-	414,835	1,569,986
Food service	-		-	-	89,312	89,312
Local:						
Interest	231,375	30,837	83,268	88,563	56,085	490,128
Other local	1,958,904	-	-	-	120,422	2,079,326
Due from city government	143,745		-	1,437,383	-	1,581,128
Due from agency fund	-		-	5,683,286		5,683,286
Total	$ 9,378,422	$ 30,837	$ 83,268	$ 7,209,232	$ 1,939,399	$ 18,641,158

NOTE 4 – INTERFUND TRANSACTIONS

A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2019, consisted of the following:

	Due From Other Funds		
	General Fund	Non-Major Governmental Funds	Total Governmental Funds
General Fund	$ -	$ 8,543,576	$ 8,543,576
Building Fund	188	-	188
Non-Major Governmental Funds	532,752	-	532,752
	$ 532,940	$ 8,543,576	$ 9,076,516

General Fund due to Adult Education Fund for transfer of LCFF revenue	$ 880,000
General Fund due to Child Development Fund to correct indirect costs charged	3,864
General Fund due to Cafeteria Fund to clear food service uncollected debt	19,611
General Fund due to Capital Facilities Fund for LPA invoices	332,953
General Fund due to Special Reserve Fund for Capital Outlay Projects for special reserv	7,307,148
Building Fund to General Fund for benefits	188
Adult Education Fund due to General Fund for indirect costs and benefits	45,872
Child Development Fund due to General Fund for indirect costs and benefits	63,852
Cafeteria Fund due to General Fund for indirect costs and benefits	345,052
Capital Facilities Fund due to General Fund for LPA invoices	77,976
Total	$ 9,076,516

NOTE 4 – INTERFUND TRANSACTIONS (continued)

B. Transfers To/From Other Funds

Transfers to/from other funds during the year ended June 30, 2019, consisted of the following:

General Fund to Special Reserve Fund for Capital Outlay Projects for RDA funds and special revenue transfer	$ 5,209,324
General Fund to Child Development Fund for miscellaneous costs	1,004
Total	$ 5,210,328

NOTE 5 – FUND BALANCES

At June 30, 2019, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Component Units	Non-Major Governmental Funds	Total
Nonspendable:						
Revolving cash	$ 150,000	$ -	$ -	$ -	$ -	$ 150,000
Stores inventories	188,549	-	-	-	84,785	273,334
Total Nonspendable	338,549		-	-	84,785	423,334
Restricted:						
Categorical programs	21,639,878	-	-	-	-	21,639,878
Adult Education Program	-	-	-	-	352,116	352,116
Food Service Program	-	-	-	-	1,665,110	1,665,110
Capital projects	-	6,639,763	42,798,020	38,037,264	38,787,083	126,262,130
Debt service	-	-	-	-	11,354,849	11,354,849
Total Restricted	21,639,878	6,639,763	42,798,020	38,037,264	52,159,158	161,274,083
Committed:						
Adult education program	-	-	-	-	1,395,892	1,395,892
Benefit accounts	140,000	-	-	-	-	140,000
Vacation liability	1,109,470	-	-	-	-	1,109,470
Local protection reserve	19,873,124	-	-	-	-	19,873,124
Facilities maintenance reserve	5,600,262	-	-	-	-	5,600,262
Technology reserve	6,000,000	-	-	-	-	6,000,000
Classroom furniture reserve	1,278,276	-	-	-	-	1,278,276
One-time discretionary	10,458,170	-	-	-	-	10,458,170
Textbook adoption	5,000,000	-	-	-	-	5,000,000
Anthem HRA balance reserve	233,305	-	-	-	-	233,305
EL carryover	2,104,736	-	-	-	-	2,104,736
School local program carryover	994,765	-	-	-	-	994,765
Future school opening	500,000	-	-	-	-	500,000
Declining enrollment reserve	2,000,000	-	-	-	-	2,000,000
LCAP & District priority	4,001,362	-	-	-	-	4,001,362
MAA/Medi-Cal program	374,542	-	-	-	-	374,542
Health and Welfare insurance rebate	330,000	-	-	-	-	330,000
Other commitments	8,049,767	-	-	-	-	8,049,767
Total Committed	68,047,779	-	-	-	1,395,892	69,443,671
Assigned:						
Child development operations	-	-	-	-	724,312	724,312
Deferred maintenance program	11,257,125	-	-	-	-	11,257,125
Total Assigned	11,257,125	-	-	-	724,312	11,981,437
Unassigned:						
Reserve for economic uncertainties	7,888,010	-	-	-	7,799,676	15,687,686
Total Unassigned	7,888,010	-	-	-	7,799,676	15,687,686
Total	$ 109,171,341	$ 6,639,763	$ 42,798,020	$ 38,037,264	$ 62,163,823	$ 258,810,211

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance, July 1, 2018	Additions	Retirements	Balance, June 30, 2019
Capital assets not being depreciated:				
Land	$ 176,147,527	$ -	$ -	$ 176,147,527
Construction in progress	13,524,292	14,164,215	8,030,138	19,658,369
Total capital assets not being depreciated	189,671,819	14,164,215	8,030,138	195,805,896
Capital assets being depreciated:				
Improvement of sites	66,802,036	428,687	-	67,230,723
Buildings	490,826,785	11,404,544	311,500	501,919,829
Equipment	27,273,820	1,886,377	500,983	28,659,214
Total capital assets being depreciated	584,902,641	13,719,608	812,483	597,809,766
Accumulated depreciation for:				
Improvement of sites	(19,354,097)	(3,017,329)	-	(22,371,426)
Buildings	(129,044,850)	(11,659,778)	(311,500)	(140,393,128)
Equipment	(16,696,908)	(1,766,468)	(474,333)	(17,989,043)
Total accumulated depreciation	(165,095,855)	(16,443,575)	(785,833)	(180,753,597)
Total capital assets being depreciated, net	419,806,786	(2,723,967)	26,650	417,056,169
Governmental activity capital assets, net	$ 609,478,605	$ 11,440,248	$ 8,056,788	$ 612,862,065

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the fiscal year ended June 30, 2019, were as follows:

	Balance, July 1, 2018	Additions	Deductions	Balance, June 30, 2019	Amount Due Within One Year
General Obligation Bonds:					
Principal Payments	$ 181,435,876	$ -	$ 6,170,680	$ 175,265,196	$ 6,966,135
Accreted Interest	1,261,407	169,901	469,320	961,988	533,865
Unamortized Issuance Premium	19,625,348	-	1,261,792	18,363,556	1,261,792
Total - GO Bonds	202,322,631	169,901	7,901,792	194,590,740	8,761,792
Workers' Compensation Claims	5,325,973	1,402,036	-	6,728,009	-
Compensated Absences	1,109,470	38,389	-	1,147,859	-
Other Postemployment Benefits	27,529,909	8,518,467	1,523,969	34,524,407	-
Totals	$ 236,287,983	$ 10,128,793	$ 9,425,761	$ 236,991,015	$ 8,761,792

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Accumulated vacation and OPEB will be paid for by the fund for which the employee worked. Workers' compensation claims will be paid by the Insurance Fund.

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

A. General Obligation Bonds

Measure G
The District authorized bonds at a regularly scheduled election of the registered voters of the District held on November 5, 2002, at which more than 55% of the voters authorized the issuance and sale of $80 million of general obligation bonds to finance the construction of new facilities, such as multipurpose rooms, renovation and improvements of existing schools and to fund a portion of the cost of the construction of a new elementary school. As of March 31, 2013, all bond proceeds had been spent for Measure G.

Measure L
On November 4, 2008, an election was held in the District, whereby the voters approved by a 58.5% of the vote Measure "L", which authorizes the District to issue up to $95 million of general obligation bonds. The bonds will be used to acquire, construct, renovate, upgrade and provide repair of existing school facilities.

Build America Bonds
A portion of the Measure G and Measure L bonds is designated "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"). Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. The District is obligated to deposit any cash subsidy payments it receives into the debt service fund for the Bonds.

Measure S
On November 6, 2012, a special election of the registered voters was held in School Facilities Improvement District No. 2012-1, at which more than the required 55% of voters authorized the issuance and sale of not to exceed $135 million principal amount of general obligation bonds of the District to upgrade classrooms, science labs, equipment, instructional technology, and infrastructure.

Prior-Year Defeasance of Debt
In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, $45.2 million of bonds outstanding are considered defeased.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2019, deferred amounts on refunding were $8,590,709.

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

A. General Obligation Bonds (continued)

Below is a schedule of bonds issued and outstanding as of June 30, 2019.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, 7/1/2018	Additions	Deductions	Balance, June 30, 2019
Measure G:								
2002D	3/10/2010	2034	6.0%-6.9%	$ 24,998,556	$ 2,990,876	$ -	$ 730,680	$ 2,260,196
Measure L:								
2008A	3/30/2010	2034	3.0% - 6.6%	25,000,000	2,180,000	-	695,000	1,485,000
2008B	6/9/2011	2037	2.0% - 5.0%	25,000,000	2,735,000	-	530,000	2,205,000
2008C	5/8/2013	2042	2.0% - 4.0%	25,000,000	23,145,000	-	360,000	22,785,000
2008D	2/18/2015	2038	3.0% - 3.4%	20,000,000	19,640,000	-	50,000	19,590,000
Measure S:								
2012A	3/14/2013	2037	2.0% - 5.0%	35,000,000	25,410,000	-	2,520,000	22,890,000
2012B	2/15/2018	2041	2.0% - 5.0%	20,000,000	20,000,000	-	-	20,000,000
Refunding Bonds:								
Refunding	1/28/2015	2032	2.0% - 5.0%	23,795,000	22,765,000	-	1,200,000	21,565,000
Refunding	4/6/2016	2029	5.0%	15,195,000	15,195,000	-	-	15,195,000
Refunding	4/6/2016	2037	2.0% - 5.0%	26,545,000	26,160,000	-	85,000	26,075,000
Refunding	12/21/2017	2035	4.0% - 5.0%	9,345,000	9,345,000	-	-	9,345,000
Refunding	12/21/2017	2035	4.0% - 5.0%	11,870,000	11,870,000	-	-	11,870,000
					$ 181,435,876	$ -	$ 6,170,680	$ 175,265,196
			Accreted Interest:	Series				
				2002D	1,261,407	169,901	469,320	961,988
					$ 1,261,407	$ 169,901	$ 469,320	$ 961,988

The annual requirements to amortize general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2019-20	$ 6,966,135	$ 8,755,548	$ 15,721,683
2020-21	7,088,136	8,502,772	15,590,908
2021-22	8,010,925	7,379,525	15,390,450
2022-23	9,520,000	6,285,625	15,805,625
2023-24	7,290,000	5,873,825	13,163,825
2024-29	42,430,000	23,527,406	65,957,406
2029-34	45,295,000	13,225,794	58,520,794
2034-39	32,300,000	5,342,097	37,642,097
2039-43	16,365,000	1,013,184	17,378,184
	$ 175,265,196	$ 79,905,776	$ 255,170,972

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $227,631,861 as of June 30, 2019, does not represent debt of the District and, as such, does not appear in the financial statements.

C. Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

Pension Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 33,313,086	$ 4,920,327	$ 650,596	$ 3,516,816
MPP Program	1,211,321	-	-	(152,816)
Total	$ 34,524,407	$ 4,920,327	$ 650,596	$ 3,364,000

The details of each plan are as follows:

<u>District Plan</u>

Plan Description

Tustin Unified School District provides post-employment benefits other than pensions (OPEB) to employees who meet certain criteria. The District provides post-employment healthcare benefits to eligible retirees and their covered eligible dependents and pays a portion of the cost. All active employees who retire directly from the District and meet the eligibility criteria may participate. The District has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

The postretirement health plans and the District's obligation vary by employee group as described below.

Following is a description of the current retiree plan:

	Certificated Management	Certificated	Classified	Classified Management
Benefit types provided	Medical and dental	Medical and dental	Medical and dental	Medical and dental
Duration of benefits	To age 65	To age 65	To age 65	To age 65
Required service	8 years	8 years	5 years	5 years
Minimum age	50	50	50	50
Dependent coverage	No	No	No	No
District contribution %	100% of single rate after retiree contribution that varies by plan	100% of single rate after retiree contribution that varies by plan	100% of single rate after retiree contribution that varies by plan	100% of single rate after retiree contribution that varies by plan

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

Employees Covered by Benefit Terms
At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	110
Active employees	1,571
Total	1,681

Total OPEB Liability
The District's total OPEB liability of $33,313,086 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions and Other Inputs
The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2018
Inflation	2.25 percent
Salary increases	3.00 percent
Healthcare cost trend rates	7.00 percent for 2018-19, decreasing to 5.00 percent for
Retirees' share of benefit-related costs	Based on retirees' current cost-sharing provisions, assumed to remain constant for all future years.

Discount Rate
The discount rate is 3.5 percent per year net of expenses based on the Bond Buyer 20 Bond Index.

The discount rate was based on the Bond Buyer 20 Bond Index.

Mortality Rates
Following are the tables the mortality assumptions are based upon.

2009 CalSTRS Mortality
The mortality assumptions are based on the 2009 CalSTRS Mortality table created by CalSTRS. CalSTRS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

2014 CalPERS Retiree and Active Mortality for Miscellaneous Employees
The mortality assumptions are based on the 2014 CalPERS Retiree and Active Mortality for Miscellaneous Employees tables created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

Mortality Rates (continued)
Following are the tables the retirement and turnover assumptions are based upon.

2009 CalSTRS Retirement Rates
The retirement assumptions are based on the 2009 CalSTRS Retirement Rates table created by CalSTRS. CalSTRS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees
The retirement assumptions are based on the 2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

2009 CalPERS Retirement Rates for School Employees
The retirement assumptions are based on the 2009 CalPERS Retirement Rates for School Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2018	$ 26,165,772
Changes for the year:	
Service cost	1,748,747
Interest	1,234,352
Difference between expected and actual experience	(148,063)
Changes of assumptions	5,535,368
Benefit payments	(1,223,090)
Net changes	7,147,314
Balance at June 30, 2019	$ 33,313,086

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

Discount Rate	OPEB Liability
1% decrease (2.5%)	$ 36,270,829
Current discount rate (3.5%)	$ 33,313,086
1% increase (4.5%)	$ 30,600,706

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Healthcare Cost Trend Rate	OPEB Liability
1% decrease (6.00%)	$ 29,500,048
Current rate (7.00%)	$ 33,313,086
1% increase (8.00%)	$ 37,775,296

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended June 30, 2019, the District recognized OPEB expense of $3,516,816. In addition, at June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 131,612
Changes of assumptions	4,920,327	518,984
Total	$ 4,920,327	$ 650,596

The deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the subsequent fiscal year. The deferred outflows of resources related to the differences between expected and actual experience in the measurement of the total OPEB liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 6.79 years.

The amount reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Year Ended June 30:		
2020	$ 615,041	$ 81,324
2021	615,041	81,324
2022	615,041	81,324
2023	615,041	81,324
2024	615,041	81,324
Thereafter	1,845,122	243,976
	$ 4,920,327	$ 650,596

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program

Plan Description
The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/actuarial-financial-and-investor-information.

Benefits Provided
The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

As of June 30, 2019, 5,984 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

The MPP Program is funded on a pay-as-you-go basis from a portion of monthly employer contributions. In accordance with California Education Code section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Total OPEB Liability
At June 30, 2019, the District reported a liability of $1,211,321 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2018, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined.

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Total OPEB Liability (continued)
The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	Percentage Share of MPP Program		
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	Change Increase/ (Decrease)
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net OPEB Liability	0.316462%	0.324248%	-0.007785%

For the year ended June 30, 2019, the District reported OPEB expense for MPP of $(152,816).

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:

Measurement Date	June 30, 2018
Valuation Date	June 30, 2017
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.87%
Healthcare Cost Trend Rates	3.70% for Medicare Part A, and 4.10% for Medicare Part B

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459 or an average of 0.27 percent of the potentially eligible population (171,593).

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Actuarial Assumptions and Other Inputs (continued)
The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate
The discount rate used to measure the total OPEB liability was 3.87 percent. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

Discount Rate	MPP OPEB Liability
1% decrease (2.87%)	$ 1,339,779
Current discount rate (3.87%)	$ 1,211,321
1% increase (4.87%)	$ 1,095,328

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

C. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percentage-point lower or one percentage-point higher than the current rates:

Medicare Cost Trend Rates	MPP OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 1,104,600
Current rate (3.7% Part A and 4.1% Part B)	$ 1,211,321
1% increase (4.7% Part A and 5.1% Part B)	$ 1,326,092

NOTE 8 – PENSION PLANS

Qualified employees are covered under multiple-employer defined benefit pension 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).

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 184,955,509	$ 47,717,892	$ 9,808,536	$ 26,214,822
CalPERS	74,191,678	22,953,709	-	15,088,278
Total	$ 259,147,187	$ 70,671,601	$ 9,808,536	$ 41,303,100

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/actuarial-financial-and-investor-information.

NOTE 8 – PENSION PLANS (continued)

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

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP. The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Member Contribution Rate	10.25%	10.205%
Required Employer Contribution Rate	16.28%	16.28%
Required State Contribution Rate	9.828%	9.828%

Contributions
Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period.

The contribution rates for each program for the year ended June 30, 2019, are presented above and the District's total contributions were $17,962,647.

NOTE 8 – 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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	$ 184,955,509
State's proportionate share of the net pension liability associated with the District	42,822,409
Total	$ 227,777,918

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2019	**Fiscal Year Ending June 30, 2018**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net Pension Liability	0.201242%	0.203726%	-0.002484%

For the year ended June 30, 2019, the District recognized pension expense of $26,214,822. In addition, the District recognized pension expense and revenue of $3,611,021 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,962,647	$ -
Net change in proportionate share of net pension liability	448,369	-
Difference between projected and actual earnings on pension plan investments	-	-
Changes of assumptions	28,733,336	7,121,955
Differences between expected and actual experience in the measurement of the total pension liability	573,540	2,686,581
Total	$ 47,717,892	$ 9,808,536

NOTE 8 – 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 deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	$ 7,072,032
2021	4,401,550
2022	(458,445)
2023	4,335,140
2024	5,104,527
Thereafter	(508,095)
Total	$ 19,946,709

Actuarial Methods and Assumptions
The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table issued by the Society of Actuaries.

NOTE 8 – PENSION PLANS (continued)

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

Actuarial Methods and 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 inputs 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 reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2019, 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%
Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	(1.00)%

Discount Rate
The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 270,938,177
Current discount rate (7.10%)	184,955,509
1% increase (8.10%)	113,667,533

NOTE 8 – PENSION PLANS (continued)

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

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions of $2,246,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is $16,882,832.

B. California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/employers/actuarial-services/gasb.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.50%
Required Employer Contribution Rate	18.062%	18.062%

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Contributions
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were $6,852,091.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $74,191,678. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2019	**Fiscal Year Ending June 30, 2018**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net Pension Liability	0.278256%	0.270125%	0.008131%

For the year ended June 30, 2019, the District recognized pension expense of $15,088,278. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,852,091	$ -
Net change in proportionate share of net pension liability	3,221,633	-
Difference between projected and actual earnings on pension plan investments	608,538	-
Changes of assumptions	7,407,712	-
Differences between expected and actual experience in the measurement of the total pension liability	4,863,735	-
Total	$ 22,953,709	$ -

NOTE 8 – 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)
The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	$ 8,874,331
2021	6,703,188
2022	576,121
2023	(52,022)
2024	-
Thereafter	-
Total	$ 16,101,618

Actuarial Methods and Assumptions
Total pension liability for the Schools Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	1997-2015
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Post-retirement mortality rates are based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Actuarial Methods and Assumptions (continued)
In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ 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 administration expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92%)

Discount Rate
The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 108,019,535
Current discount rate (7.15%)	74,191,678
1% increase (8.15%)	46,126,628

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

On-Behalf Payments
The State of California normally makes no contributions to CalPERS on behalf of the District. However, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated contributions of $904,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is $2,515,430.

C. Social Security
As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

D. Payables to the Pension Plans
At June 30, 2019, the District reported payables of $292,485 and $421,288 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2019.

NOTE 9 – JOINT VENTURES

The Tustin Unified School District participates in two joint powers agreement (JPA) entities, the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Coastline Regional Occupational Program (CROP). ASCIP provides property and liability insurance for its participating school districts. The Tustin Unified School District pays a premium commensurate with the level of coverage requested. CROP provides student occupational training for its member school districts on an average daily attendance (ADA) basis.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Tustin Unified School District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

NOTE 9 – JOINT VENTURES (continued)

The relationship between the Tustin Unified School District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes. Current financial information for CROP is directly available from the JPA. Condensed current financial information of the ASCIP JPA is shown below:

	ASCIP June 30, 2018 (Audited)
Total Assets	$ 454,668,010
Deferred Outflows of Resources	1,762,160
Total Liabilities	251,584,695
Deferred Inflows of Resources	442,840
Net Position	$ 204,402,635
Total Revenues	$ 259,307,983
Total Expenditures	251,547,168
Total Nonoperating revenue	2,679,762
Change in Net Assets	$ 10,440,577

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants
The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments
As of June 30, 2019, the District had commitments with respect to unfinished capital projects of approximately $43.7 million.

C. Litigation
The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2019.

NOTE 11 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2019, the District participated in the ASCIP public entity risk pool for property and liability insurance coverage. General and automobile liability coverage is $5 million with no deductible and property coverage is replacement cost with a $10,000 deductible. Excess coverage above these limits is provided by the Schools Excess Liability Fund (SELF) JPA. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2018-19, the District was self-funded for workers compensation for the first $750,000 of each loss, with excess coverage provided through a commercial excess insurance policy up to a maximum limit of $25 million.

Employee Medical Benefits

The District has contracted with Aetna to provide employee medical, dental and vision benefits.

Claims Liability

The District records an estimated liability for workers' compensation claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2017 to June 30, 2019:

	Workers' Compensation
Liability Balance, July 1, 2017	$ 5,329,973
Claims and changes in estimates	4,514
Claims payments	(4,514)
Liability Balance, June 30, 2018	5,329,973
Claims and changes in estimates	1,402,623
Claims payments	(4,587)
Liability Balance, June 30, 2019	$ 6,728,009
Assets available to pay claims at June 30, 2019	$ 7,799,676

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Required Supplementary Information

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TUSTIN UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenues				
LCFF sources	$ 209,035,217	$ 209,687,872	$ 209,687,871	$ (1)
Federal sources	8,030,942	9,535,943	8,735,791	(800,152)
Other State sources	33,276,431	40,219,283	48,916,074	8,696,791
Other Local sources	8,357,268	13,308,123	13,245,676	(62,447)
Total Revenues	258,699,858	272,751,221	280,585,412	7,834,191
Expenditures				
Current:				
Certificated salaries	112,172,892	112,603,567	112,255,861	347,706
Classified salaries	40,974,962	40,531,821	40,516,740	15,081
Employee benefits	69,938,315	64,435,197	73,716,950	(9,281,753)
Books and supplies	10,080,502	9,075,045	8,084,040	991,005
Services and other operating expenditures	24,697,927	25,332,474	25,238,703	93,771
Transfers of indirect cost	(393,504)	(445,739)	(445,739)	-
Capital outlay	545,000	4,273,554	4,273,553	1
Intergovernmental transfers	3,687,150	3,476,446	3,476,446	-
Total Expenditures	261,703,244	259,282,365	267,116,554	(7,834,189)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,003,386)	13,468,856	13,468,858	2
Other Financing Sources and Uses				
Interfund Transfers In	-	1,004	-	(1,004)
Interfund transfers out	(3,500,000)	(5,209,324)	(5,210,328)	(1,004)
Total Other Financing Sources and Uses	(3,500,000)	(5,208,320)	(5,210,328)	(2,008)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(6,503,386)	8,260,536	8,258,530	(2,006)
Fund Balances, July 1, 2018	77,774,593	81,605,920	81,605,919	-
Fund Balances, June 30, 2019	$ 71,271,207	$ 89,866,456	$ 89,864,449	$ (2,006)
Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
Deferred Maintenance Fund			11,257,125	
Special Revenue Fund for Other than Capital Outlay			8,049,767	
Reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances:			$ 109,171,341	

Note to Schedule: The excess of expenditures over budgeted amounts for employee benefits is the result of the STRS and PERS supplemental contributions under SB 90 in the amounts of $7.1 million and $2.5 million respectively that were recorded in the financial statements but were not included in the budget.

TUSTIN UNIFIED SCHOOL DISTRICT

Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2019

Last Ten Fiscal Years*

	2017-18	2016-17	2015-16	2014-15	2013-14
CalSTRS					
District's proportion of the net pension liability	0.2012%	0.2037%	0.2030%	0.2080%	0.1970%
District's proportionate share of the net pension liability	$ 184,955,509	$ 188,405,426	$ 164,188,430	$ 140,033,920	$ 115,120,890
State's proportionate share of the net pension liability associated with the District	105,895,679	111,459,058	93,483,306	74,062,308	69,515,662
Totals	$ 290,851,188	$ 299,864,484	$ 257,671,736	$ 214,096,228	$ 184,636,552
District's covered-employee payroll	$ 108,075,662	$ 109,128,959	$ 102,439,748	$ 95,210,923	$ 88,358,545
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	171.14%	172.64%	160.28%	147.08%	130.29%
Plan fiduciary net position as a percentage of the total pension liability	71%	69%	70%	74%	77%
CalPERS					
District's proportion of the net pension liability	0.2783%	0.2701%	0.2632%	0.2573%	0.2517%
District's proportionate share of the net pension liability	$ 74,191,678	$ 64,486,058	$ 51,982,163	$ 37,926,274	$ 28,574,079
District's covered-employee payroll	$ 36,680,954	$ 34,400,173	$ 31,604,288	$ 28,447,600	$ 26,511,816
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	202.26%	187.46%	164.48%	133.32%	107.78%
Plan fiduciary net position as a percentage of the total pension liability	71%	72%	74%	79%	83%

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2019

Last Ten Fiscal Years*

	2018-19	2017-18	2016-17	2015-16	2014-15
CalSTRS					
Contractually required contribution	$ 17,962,646	$ 15,595,318	$ 13,728,423	$ 10,991,785	$ 8,454,730
Contributions in relation to the contractually required contribution	17,962,646	15,595,318	13,728,423	10,991,785	8,454,730
Contribution deficiency (excess):	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 110,335,662	$ 108,075,663	$ 109,128,959	$ 102,439,748	$ 95,210,923
Contributions as a percentage of covered-employee payroll	16.28%	14.43%	12.58%	10.73%	8.88%
CalPERS					
Contractually required contribution	$ 6,852,091	$ 5,696,919	$ 4,777,496	$ 3,744,160	$ 3,348,567
Contributions in relation to the contractually required contribution	6,852,091	5,696,919	4,777,496	3,744,160	3,348,567
Contribution deficiency (excess):	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 37,936,503	$ 36,680,954	$ 34,400,173	$ 31,604,288	$ 28,447,760
Contributions as a percentage of covered-employee payroll	18.062%	15.531%	13.888%	11.847%	11.771%

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

Last 10 Fiscal Years*

	2019	2018
Total OPEB liability		
Service cost	$ 1,748,747	$ 2,566,474
Interest	1,234,352	948,599
Differences between expected and actual experience	(148,063)	-
Changes of assumptions or other inputs	5,535,368	(628,089)
Benefit payments	(1,223,090)	(802,233)
Net change in total OPEB liability	7,147,314	2,084,751
Total OPEB liability - beginning	26,165,772	24,081,021
Total OPEB liability - ending	$ 33,313,086	$ 26,165,772
Covered-employee payroll	$ 160,273,268	$ 143,837,848
Total OPEB liability as a percentage of covered-employee payroll	20.79%	18.19%

Notes to Schedule:

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

TUSTIN UNIFIED SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
For the Fiscal Year Ended June 30, 2019

	2018	2017
District's proportion of net OPEB liability	0.3165%	0.3242%
District's proportionate share of net OPEB liability	$ 1,211,321	$ 1,364,137
Covered-employee payroll	N/A	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	0.40%	0.01%

Notes to Schedule:
As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and provisions of the California Education Code. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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 adoptions 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.

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

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

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

> ***Change in benefit terms*** – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
>
> ***Change of assumptions*** **-** In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Schedule of District Contributions

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

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

> ***Change in benefit terms*** – There were no changes in benefit terms since the previous valuation.
>
> ***Change of assumptions*** – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life. The discount rate was changed from 3.8% as of June 30, 2018 to 3.5% as of June 30, 2019, based on the published change in return for the applicable Bond Buyer 20 Bond Index.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
This schedule presents information on the District's proportionate share of the net OPEB liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

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Supplementary Information

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The Tustin Unified School District was established July 1, 1972 upon unification of the Tustin Elementary and Union High School Districts. The District boundaries include the City of Tustin, portions of Santa Ana, the foothills portion of the unincorporated area of Orange County, and portions of the City of Irvine. There were no changes to the District's boundaries during the year. The District operates 18 elementary schools, one K-8 school, one K-12 online and independent study school, 5 middle schools, 3 comprehensive high schools, a continuation high school, and an alternative/adult education program.

GOVERNING BOARD

Member	Office	Term Expires
James Laird	President	November, 2020
Francine Scinto	Vice President	November, 2020
Lynn Davis	Clerk	November, 2022
Tammie Bullard	Member	November, 2020
Jonathan Abelove	Member	November, 2022

DISTRICT ADMINISTRATORS

Gregory A. Franklin, Ed.D.,
Superintendent

Kathie Nielson,
Deputy Superintendent, Educational Services

Grant Litfin, Ed.D.,
Assistant Superintendent, Administrative Services

Amy Lambert, Ed.D.,
Assistant Superintendent, Special Education

Anthony Soria,
Chief Financial Officer

Charles Lewis, Ed.D.,
Chief Personnel Officer

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2019

	Second Period Report	**Annual Report**
	Certificate No. A8378F90	Certificate No. 0B70C3E0
Regular ADA & Extended Year:		
Grades TK - 3	6,317.28	6,320.57
Grades 4-6	5,068.11	5,066.82
Grades 7-8	3,693.66	3,688.78
Grades 9-12	7,853.02	7,821.81
Total Regular ADA	22,932.07	22,897.98
Special Education-Nonpublic, Nonsectarian Schools:		
Grades TK - 3	0.31	0.48
Grades 4-6	5.30	6.20
Grades 7-8	3.88	4.56
Grades 9-12	12.54	12.38
Total Special Education-Nonpublic, Nonsectarian Schools	22.03	23.62
Total ADA	22,954.10	22,921.60

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2019

Grade Level	Required	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	36,540	180	Complied
Grade 1	50,400	54,514	180	Complied
Grade 2	50,400	54,514	180	Complied
Grade 3	50,400	54,514	180	Complied
Grade 4	54,000	54,514	180	Complied
Grade 5	54,000	54,514	180	Complied
Grade 6	54,000	58,859	180	Complied
Grade 7	54,000	58,859	180	Complied
Grade 8	54,000	58,859	180	Complied
Grade 9	64,800	74,307	180	Complied
Grade 10	64,800	74,307	180	Complied
Grade 11	64,800	74,307	180	Complied
Grade 12	64,800	74,307	180	Complied

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2019

General Fund	(Budget) 2020 [2]	2019 [3]	2018	2017
Revenues and other financing sources	$ 271,193,588	$ 280,585,412	$ 256,914,325	$ 249,636,766
Expenditures	272,364,044	267,116,554	251,726,713	241,132,967
Other uses and transfers out	3,500,000	5,210,328	6,365,339	5,740,808
Total outgo	275,864,044	272,326,882	258,092,052	246,873,775
Change in fund balance (deficit)	(4,670,456)	8,258,530	(1,177,727)	2,762,991
Ending fund balance	$ 85,193,993	$ 89,864,449	$ 81,605,919	$ 82,783,646
Available reserves [1]	$ 8,275,922	$ 7,888,010	$ 7,742,762	$ 7,406,214
Available reserves as a percentage of total outgo [4]	3.0%	2.9%	3.0%	3.0%
Total long-term debt	$ 487,376,410	$ 496,138,202	$ 489,179,467	$ 435,750,812
Average daily attendance at P-2	23,170	22,954	23,217	23,409

The General Fund balance has increased by approximately $7.1 million over the past two years. The fiscal year 2019-20 adopted budget projects a decrease of approximately $4.7 million. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in two of the past three years, but anticipates incurring an operating deficit during the 2019-20 fiscal year. Long-term debt has increased by $60.4 million over the past two years.

Average daily attendance has decreased by 455 over the past two years. The District projects an increase of 216 ADA in 2019-20.

[1] Reserves consist of fund balances for economic uncertainties (3% recommended).

[2] Budget as of July 2019.

[3] The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

[4] The District's reserves are below the minimum recommended percentage only as a result of the STRS and PERS on-behalf contributions from the State, which increased total expenditures thereby increasing the minimum reserve level. The District has available funds assigned for other purposes that can be used towards meeting the reserve levels, if needed.

	Capital Projects Fund for Blended Component Units
June 30, 2019, annual financial and budget report (SACS) fund balances	$ 38,733,495
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts payable understated	(696,231)
June 30, 2019, audited financial statement fund balances	$ 38,037,264

TUSTIN UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition Cluster:				
School Breakfast Program - Basic	10.553	13525	$ 60,068	
School Breakfast Program - Especially Needy	10.553	13526	1,190,702	
National School Lunch Program	10.555	13523	3,577,691	
USDA Donated Foods	10.555	N/A	485,527	
Total Child Nutrition Cluster				$ 5,313,988
Total U.S. Department of Agriculture				5,313,988
U.S. Department of Education:				
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		3,006,524
Title II, Part A, Supporting Effective Instruction State Grant	84.367	14344		484,217
English Language Acquisition State Grants Cluster:				
Title III, Language and Acquisition English Learner Student Program	84.365	14346	68,710	
Title III, Language and Acquisition Immigrant Education Program	84.365	15146	20,439	
Total English Language Acquisition State Grants				89,149
Carl Perkins Act - Secondary	84.048	14894		124,915
Special Education Individuals with Disabilities Education Act (IDEA):				
Special Education Cluster:				
Local Assistance Entitlement	84.027	13379	3,815,409	
Preschool Grants, Part B, Sec 619	84.173	13430	78,887	
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	268,620	
Preschool Staff Development	84.173A	13431	1,175	
Alternate Dispute Resolution	84.173A	13007	30,006	
Total Special Education Cluster (IDEA)				4,194,097
Early Intervention Grants, Part C	84.181	23761		61,210
Workability II, Transition	84.126	10006		118,688
Total U.S. Department of Education				8,078,800
U.S. Department of Health & Human Services:				
Passed through California Dept. of Education:				
Child Care and Development Funds Cluster:				
Child Care and Development Block Grant	93.575	15136	138,126	
Child Care Mandatory and Matching Funds	93.596	13609	261,717	
Total Child Care and Development Cluster				399,843
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	526,009	
Medi-Cal Administrative Activities (MAA)	93.778	10060	57,309	
Total Medicaid Cluster				583,318
Total U.S. Department of Health & Human Services				983,161
Total Expenditures of Federal Awards				$ 14,375,949

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has met its LCFF target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the Education Code.

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 Unaudited Actual financial report to the audited financial statements.

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2019.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		$ 14,954,397
Differences between Federal Revenues and Expenditures:		
Qualified School Construction Bonds - Interest Subsidy	Not applicable	(504,775)
Medi-Cal Billing Option	93.778	(130,982)
Medi-Cal Administrative Activities	93.778	57,309
Total Schedule of Expenditures of Federal Awards		$ 14,375,949

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Other Independent Auditors' Reports

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INDEPENDENT AUDITORS' 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*

Board of Education
Tustin Unified School District
Tustin, 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 Tustin Unified School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Tustin Unified School District's basic financial statements, and have issued our report thereon dated December 1, 2019.

Internal Control Over Financial Reporting

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

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

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

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nigro + Nigro, PC.

Murrieta, California
December 1, 2019

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Tustin Unified School District
Tustin, California

Report on State Compliance
We have audited Tustin Unified School District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Tustin Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2019.

Management's Responsibility
Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Tustin Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Tustin Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program. However, our audit does not provide a legal determination of Tustin Unified School District's compliance.

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

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

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Description	Procedures Performed
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
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
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
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

In our opinion, Tustin Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Other Matter(s)

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* and which are described in the accompanying schedule of findings and questioned costs as Findings 2019-001 and 2019-002. Our opinion on each state program is not modified with respect to these matters.

District's Responses to Findings

Tustin Unified School District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Tustin Unified School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

Nigro + Nigro, PC.

Murrieta, California
December 1, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Tustin Unified School District
Tustin, California

Report on Compliance for Each Major Federal Program

We have audited Tustin 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 Tustin Unified School District's major federal programs for the year ended June 30, 2019. Tustin Unified School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tustin 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 Tustin Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Tustin Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Tustin 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, 2019.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

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Report on Internal Control Over Compliance

Management of Tustin 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 Tustin 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 the District's internal control over compliance.

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

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

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

Nigro + Nigro, PC.

Murrieta, California
December 1, 2019

Findings and Questioned Costs

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173	Special Education (IDEA)

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

State Awards

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

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2018-19.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2018-19.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2019-001: Instructional Materials (70000)

Criteria: California Education Code Section 60119 requires that LEAs conduct a public hearing regarding the sufficiency of textbooks and instructional materials. The public hearing must be held on or before the 8th week of school.

Condition: The District's sufficiency of instructional materials public hearing was held on October 22, 2018. This was after the 8th week of school which began on August 14, 2018. The hearing would have needed to be held at the board meeting of October 8. This exception is limited to the 2018-19 school year.

Effect: None. There is no financial penalty associated with noncompliance.

Cause: The District moved the start date of the school year to August but kept the public hearing at its traditional late October date. As a result, the District public hearing was late.

Recommendation: We recommend that the District monitors the instructional material process closely and ensures the public hearing is held on or before the 8th week of school.

Views of Responsible Officials: The District revised the timeline for submitting instructional materials for the public hearing. The new timeline coincides with the earlier start of the school year. The 2019-20 instructional materials public hearing was held on September 9, 2019, which was the 5th week of school. The District will continue to monitor the timelines and ensure that the public hearing for instructional materials is held according to California Education Code Section 60119.

Finding 2019-002: Comprehensive School Safety Plan (40000)

Criteria: According to Education Code section 32281 "each school district and county office of education is responsible for the overall development of all comprehensive school safety plans for its schools operating kindergarten or any of grades 1 to 12, inclusive." Furthermore, per section 32282, the comprehensive school safety plan "shall be evaluated at least once a year, to ensure that the comprehensive school safety plan is properly implemented."

Condition: Exceptions were found at three of the nine sites in our representative sample. Two sites adopted a comprehensive school safety plan, but after March 1, 2019 as required by CDE. Another site did not revise and update the plan annually per Education Code 32282.

Effect: There is no financial penalty associated with this finding.

Cause: The site administrators did not have a full understanding of the Comprehensive School Safety Plan timeline and procedures.

Recommendation: We recommend that the District implement a procedure to ensure that their plan is reviewed and updated annually by the March 1 deadline.

Views of Responsible Officials: The District will clearly communicate the timeline and procedures for updating and approving the Comprehensive School Safety Plan to ensure that all schools update and approve their site plans by March 1st.

There were no findings or questioned costs in 2017-18.

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To the Board of Education
Tustin Unified School District
Tustin, California

In planning and performing our audit of the basic financial statements of Tustin Unified School District for the year ending June 30, 2019, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention that are not findings. This letter does not affect our report dated December 1, 2019 on the financial statements of Tustin Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

***Observation*: Bank Reconciliations**
During our testing, we identified some bank reconciliations that were not always prepared timely. Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit.

> ***Recommendation*:** We recommend that the bookkeepers perform monthly reconciliations within two weeks after the statement arrives. Furthermore, the district representative (usually a principal or vice-principal) at the school site should review, initial, and date the bank statement and reconciliation as evidence that they were reviewed. Review of the bank reconciliations is an important internal control to detect errors and possible questionable or suspicious activity.

***Observation*: Cash Receipts**
In our testing of cash receipts, we found deposits that were not supported by adequate supporting documentation at **Beckman** and **Tustin** High Schools and **Hewes** Middle School. Without adequate supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB accounts. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific event from which they were generated and to ensure that all proceeds from an event or activity are turned in and accounted for properly.

> ***Recommendation*:** We recommend that before any events are held, control procedures such as utilizing ticket logs, tally sheets, prenumbered cash receipts, or cash register receipts, be established which will allow for the reconciliation between money collected and sales.

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ASSOCIATED STUDENT BODY (ASB) FUNDS (continued)

***Observations*: Cash Disbursements**
In our testing of cash disbursements, we noted several disbursements that were approved by the district representative, the ASB advisor, and the student representative, but not until the expenditure had already been incurred.

Furthermore, at **Tustin High** we noted that one additional disbursement was missing the approval of the district representative, the ASB advisor, and the student representative.

During our testing of cash disbursements at **Hewes Middle**, we noted that one of the disbursements was missing supporting documentation such as an invoice, proper authorization, and proof of receipt. Issuing payment for expenditures without proper approvals and supporting documentation can provide the opportunity for the misappropriation of student funds.

> ***Recommendations*:** Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative prior to disbursing the funds. As a best practice, we recommend that the approvals be obtained prior to incurring the expense. We further recommend that sites require all approvals and appropriate supporting documentation prior to issuing disbursements to ensure that student funds are being properly spent.

Foothill High School
***Observation*:** During our performance of certain procedures, we identified bank reconciliations were not performed timely in the months of July, August and September of 2019. Additionally, the beginning July 2018 reconciliation did not agree with the ending June 2018 reconciliation by $24,314.58. Two balance adjustments from August were made because of a cash shortage on a deposit and from an expense incorrectly recorded as a transfer. Several deposit amounts cleared on the August bank reconciliation did not clear bank statements and could not be traced.

> ***Recommendation*:** The site should perform reconciliations within two weeks after the bank statement arrives. The site should verify outstanding items on the reconciliation and ensure items clear in the following month and investigate ones that don't. The reconciliation should match the prior ending amount and amounts should correspond with the bank balance. Cash over and short amounts should be reported and investigated promptly. Expenses should be correctly recorded as such and not as transfers.

***Observation*:**
During our inquiries and testing of cash receipts, we noted that **Columbus Middle** does not prepare revenue potentials for any fundraisers. Additionally, at **Tustin High** we noted that a revenue potential was not prepared for a See's Candy Fundraiser.

> ***Recommendation*:** Revenue potentials are used as a budgeting and planning tool. These forms serve as a sales plan which includes expected sale levels, sale prices per unit, expected cost, and net income. It is important for student organizations to have adequate internal controls over their fundraising events in order to properly evaluate the effectiveness of those events, and to account for a fundraiser's financial activity. We recommend that revenue potentials are prepared for all major fundraising activities.

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

Nigro + Nigro, PC.

Murrieta, California
December 1, 2019