



**ORANGE UNIFIED SCHOOL  
DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2014**

# ORANGE UNIFIED SCHOOL DISTRICT

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JUNE 30, 2014

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Orange Unified School District  
Orange, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 16 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13 and budgetary comparison and other postemployment benefit information on pages 60 and 61, respectively, 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 Orange Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the Orange Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange Unified School District's internal control over financial reporting and compliance.

VAORP/ELIZABETH DAY + CUP

Rancho Cucamonga, California  
November 3, 2014



# ORANGE UNIFIED SCHOOL DISTRICT

Business Services

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This section of Orange Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Orange Unified School District.

*Mission Statement: Orange Unified School District, being committed to planning for continual improvement, will provide a curriculum and learning environment of excellence and high expectations to provide each student with the opportunity and preparation to compete in the global economy.*

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its services in the following category:

**Governmental Activities** - This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants finance these activities.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

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**Governmental Funds** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

**Proprietary Funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, such as our funds for associated student body activities, and special tax assessments collected on behalf of the CFDs for the repayment of debt. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

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### FINANCIAL HIGHLIGHTS

#### THE DISTRICT AS A WHOLE

##### Net Position

The District's net position was \$266.0 million for the fiscal year ended June 30, 2014. Of this amount, \$107.8 million was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities	
	2014	2013 As Restated
<b>Assets</b>		
Current and other assets	\$ 255,883,518	\$ 240,136,260
Capital assets	169,224,947	166,833,402
<b>Total Assets</b>	<b>425,108,465</b>	<b>406,969,662</b>
<b>Deferred Outflows of Reserves</b>	<b>636,547</b>	<b>-</b>
<b>Liabilities</b>		
Current liabilities	21,105,524	22,932,791
Long-term obligations	138,624,447	140,480,886
<b>Total Liabilities</b>	<b>159,729,971</b>	<b>163,413,677</b>
<b>Net Position</b>		
Net investment in capital assets	129,731,379	138,577,146
Restricted	28,456,126	22,835,472
Unrestricted	107,829,536	82,143,367
<b>Total Net Assets</b>	<b>\$ 266,017,041</b>	<b>\$ 243,555,985</b>

The \$107.8 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 31.3 percent (\$107.8 million compared to \$82.1 million).

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

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### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities	
	2014	2013
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 9,347,060	\$ 6,691,656
Operating grants and contributions	54,496,126	58,406,782
General revenues:		
Federal and State aid not restricted	54,074,541	28,554,120
Property taxes	132,280,150	143,488,819
Other general revenues	12,707,359	12,895,539
<b>Total Revenues</b>	<b>262,905,236</b>	<b>250,036,916</b>
<b>Expenses</b>		
Instruction-related	179,571,738	171,068,267
Student support services	26,710,241	23,563,319
Administration	8,678,505	7,690,971
Maintenance and operations	20,125,369	21,474,948
Other	7,453,384	6,740,129
<b>Total Expenses</b>	<b>242,539,237</b>	<b>230,537,634</b>
Special item - sale of land	2,095,057	-
<b>Change in Net Position</b>	<b>\$ 22,461,056</b>	<b>\$ 19,499,282</b>

### Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$242.5 million. The amount that our local taxpayers ultimately financed for these activities through local property taxes was \$132.3 million. The District also collected \$9.3 million in charges for services from those that benefited from the programs. Other government agencies and organizations subsidized certain programs with grants and contributions (\$54.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$66.8 million in unrestricted State and Federal funds, and with other revenues, such as gifts, interest and general entitlements.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS

**JUNE 30, 2014**

In Table 3, we have presented the total cost and net cost of each of the District's largest functions: instruction-related, student support services, administration, maintenance and operations, and all other functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction-related	\$ 179,571,738	\$ 171,068,267	\$ 133,271,244	\$ 127,923,766
Student support services	26,710,241	23,563,319	14,681,871	9,849,358
Administration	8,678,505	7,690,971	6,758,251	6,547,678
Maintenance and operations	20,125,369	21,474,948	19,942,295	21,449,235
Other	7,453,384	6,740,129	4,042,390	(330,841)
<b>Total</b>	<b>\$ 242,539,237</b>	<b>\$ 230,537,634</b>	<b>\$ 178,696,051</b>	<b>\$ 165,439,196</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$121.6 million, which is a increase of \$11.9 million from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	\$ 75,406,137	\$ 233,771,758	\$ 226,402,083	\$ 82,775,812
Charter School Fund	3,309,675	7,625,593	7,628,715	3,306,553
Child Development Fund	568,962	5,450,320	5,553,098	466,184
Cafeteria Fund	3,094,094	8,715,222	8,011,947	3,797,369
Deferred Maintenance Fund	6,556,190	1,979,390	531,828	8,003,752
Capital Facilities Fund	3,046,448	1,279,044	2,741	4,322,751
County School Facilities Fund	477,688	4,839	70,803	411,724
Special Reserve Fund for Capital Outlay Projects	12,667,181	2,162,617	2,249,511	12,580,287
Capital Project Fund for Blended Component Units	3,796,130	1,826,738	1,501,417	4,121,451
Debt Service Fund	769,022	4,262,034	3,256,537	1,774,519
<b>Total</b>	<b>\$ 109,691,527</b>	<b>\$ 267,077,555</b>	<b>\$ 255,208,680</b>	<b>\$ 121,560,402</b>

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

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### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the 2013-2014 budget was adopted in September 2014. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 60.)

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2014, the District had \$169.2 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$2.4 million, or 1.4 percent, from last year (Table 5).

**Table 5**

	Governmental Activities	
	2014	2013
Land and construction in progress	\$ 24,056,587	\$ 52,446,312
Buildings and improvements	140,748,236	111,252,519
Furniture and equipment	4,420,124	3,134,571
<b>Total</b>	<b>\$ 169,224,947</b>	<b>\$ 166,833,402</b>

As of June 30, 2014, the District had invested \$169.2 million, net of depreciation, in broad range of capital assets, including building, furniture, computer equipment, and vehicles. During the 2013-2014 fiscal year, the District completed the modernization of Lampson Elementary School, Yorba Middle School, Anaheim Hills Elementary School and West Orange Elementary School and also the upgrades to the District-wide network systems. In addition, the District continued with capital improvements at seven other schools namely: Fletcher Elementary School, Canyon High School, El Modena High School, Orange High School, and Villa Park High School.

A limited number of capital projects are planned for the 2014-2015 year. Planning for future potential capital initiatives is ongoing. The District plans to acquire a modest amount of additional capitalized equipment and furnishings during the 2014-2015 year.

# ORANGE UNIFIED SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

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### Long-Term Obligations

At the end of this year, the District had \$138.6 million in long-term obligations versus \$140.5 million last year, a decrease of 1.3 percent. Those obligations consisted of:

**Table 6**

	Governmental Activities	
	2014	2013
Certificates of participation	\$ 33,191,560	\$ 35,573,644
Compensated absences (vacations)	4,096,428	3,766,319
Capital leases	10,423,459	9,145,923
Retirement health benefits funding bonds	86,665,000	88,265,000
Claims liability	4,248,000	3,730,000
<b>Total</b>	<b>\$ 138,624,447</b>	<b>\$ 140,480,886</b>

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

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

The total budgeted attendance of 26,434.02 (not including District charter schools, county special education, and county community day schools) reflects an anticipated loss of 87.71 ADA. The District charter schools' ADA of 2,121.82 reflects no change as compared to the prior year.

Average staffing ratios for all grade levels are shown in the table below:

	<u>Staffing Ratio</u>
Grades TK through six	30:1
Grades seven through twelve	32:1

The new items specifically addressed in the budget are:

	<u>percent Change</u>
Federal sequestration adjustment	(8.2) percent
State and Federal cost of living adjustment	0.00 percent
Health and welfare increase	0.00 percent

### FACTORS BEARING ON THE DISTRICT'S FUTURE

In 2013-2014, school districts faced historical changes under the implementation of Local Control Funding Formula (LCFF) and the adoption of the first Local Control and Accountability Plan (LCAP). The 2014-2015 fiscal year, the second year of the seven-year LCFF implementation period, represents a transition to a new normal that will include the participation of stakeholders in the process of planning and budgeting, as well as, the application of the new Common Core Standards and Smarter Balanced Assessment in the classroom.

# **ORANGE UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**JUNE 30, 2014**

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The 2014-2015 State Budget provides additional funding to continue with the implementation of the LCFF which will close 29.56 percent of the gap toward the funding target. Nearly \$1 billion in deferrals are still active for K-14 education, unless the state revenues are higher than projected by May Revision. The State budget also includes a seven-year implementation plan to retire the \$73.7 billion California State Teachers' Retirement System (CalSTRS) shortfall, resulting in an increase to the District's contribution rate, from 8.25 percent in 2013-2014 to 19.1 percent in 2020-2021. In addition, the District's contribution to the California Public Employees' Retirement System (CalPERS) will also increase each year until 2020-2021 to 20.40 percent, up from 11.442 percent in 2013-2014. There are no significant changes to Federal funding for education and no additional dollars earmarked for the implementation of Common Core Standards.

Although the LCFF brings additional funding to education, it also brings some uncertainty as the annual LCFF contribution is at the discretion of the State based upon State projections. Consequently, school districts must build expenditure flexibility in their budgets to allow for unforeseen events like changing priorities under the LCAP, additional cost to implement Common Core State Standards, and Smarter Balanced Assessment, increased administrative costs associated with the Affordable Care Act (ACA), and unexpected cost to maintain programs previously funded by categorical programs.

### Other Factors

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Orange Unified School District, 1401 North Handy Street, Orange, California, 92867, or e-mail at [joes@orangeusd.org](mailto:joes@orangeusd.org).

# ORANGE UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2014

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 129,181,553
Receivables	23,454,943
Prepaid expenses	1,292,747
Stores inventories	234,822
Net OPEB assets	101,719,453
Capital assets	
Land and construction in process	24,056,587
Other capital assets	217,587,754
Less: Accumulated depreciation	(72,419,394)
Total Capital Assets	<u>169,224,947</u>
<b>Total Assets</b>	<u><u>425,108,465</u></u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	<u>636,547</u>
 <b>LIABILITIES</b>	
Accounts payable	20,735,549
Accrued interest payable	141,360
Unearned revenue	226,615
Current portion of long-term obligations	6,465,257
Noncurrent portion of long-term obligations	<u>132,159,190</u>
Total Long-Term Obligations	<u>138,624,447</u>
<b>Total Liabilities</b>	<u><u>159,727,971</u></u>
 <b>NET POSITION</b>	
Net investment in capital assets	129,731,379
Restricted for:	
Debt service	1,633,159
Capital projects	4,734,475
Educational programs	7,236,737
Other activities	14,851,755
Unrestricted	<u>107,829,536</u>
<b>Total Net Position</b>	<u><u>\$ 266,017,041</u></u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 146,719,579	\$ 3,908,704	\$ 33,587,645	\$ (109,223,230)
Instruction-related activities:				
Supervision of instruction	9,437,246	333,643	5,213,626	(3,889,977)
Instructional library, media, and technology	5,056,323	33,986	1,471,836	(3,550,501)
School site administration	18,147,444	740,100	799,808	(16,607,536)
Pupil services:				
Home-to-school transportation	8,167,432	-	-	(8,167,432)
Food services	7,766,892	1,669,028	6,705,783	607,919
All other pupil services	10,751,281	267,670	3,361,253	(7,122,358)
Administration:				
Data processing	1,852,856	-	32,697	(1,820,159)
All other administration	6,819,129	234,321	1,646,716	(4,938,092)
Plant services	20,109,288	110,949	56,044	(19,942,295)
Ancillary services	1,499,110	-	105,738	(1,393,372)
Community services	113,804	-	18,185	(95,619)
Interest on long-term obligations	2,270,479	-	-	(2,270,479)
Other outgo	3,828,374	2,048,659	1,496,795	(282,920)
<b>Total Governmental Activities</b>	<b>\$ 242,539,237</b>	<b>\$ 9,347,060</b>	<b>\$ 54,496,126</b>	<b>(178,696,051)</b>
General revenues and subventions:				
Property taxes, levied for general purposes				131,150,949
Taxes levied for other specific purposes				1,129,201
Federal and State aid not restricted to specific purposes				54,074,541
Interest and investment earnings				334,380
Transfers between agencies				1,090,747
Miscellaneous				11,282,232
<b>Subtotal, General Revenues</b>				<b>199,062,050</b>
Special item - gain from sale of land				2,095,057
<b>Change in Net Position</b>				<b>22,461,056</b>
Net Position - Beginning, as Restated				243,555,985
Net Position - Ending				<b>\$ 266,017,041</b>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 77,150,576	\$ 40,391,153	\$ 117,541,729
Receivables	22,882,778	568,212	23,450,990
Due from other funds	501,867	2,403,852	2,905,719
Prepaid expenditures	1,292,747	-	1,292,747
Stores inventories	157,972	76,850	234,822
<b>Total Assets</b>	<b>\$ 101,985,940</b>	<b>\$ 43,440,067</b>	<b>\$ 145,426,007</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 16,639,852	\$ 3,994,942	\$ 20,634,794
Due to other funds	2,484,773	519,423	3,004,196
Unearned revenue	85,503	141,112	226,615
<b>Total Liabilities</b>	<b>19,210,128</b>	<b>4,655,477</b>	<b>23,865,605</b>
<b>Fund Balances:</b>			
Nonspendable	1,550,719	111,850	1,662,569
Restricted	7,236,737	18,088,701	25,325,438
Committed	-	8,003,752	8,003,752
Assigned	2,232,085	12,580,287	14,812,372
Unassigned	71,756,271	-	71,756,271
<b>Total Fund Balances</b>	<b>82,775,812</b>	<b>38,784,590</b>	<b>121,560,402</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 101,985,940</b>	<b>\$ 43,440,067</b>	<b>\$ 145,426,007</b>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

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<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 121,560,402</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 241,644,341
Accumulated depreciation is:	<u>(72,419,394)</u>
Net Capital Assets	169,224,947
In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The other postemployment benefit net asset is a result of accumulated plant assets that are an irrevocable contribution and dedicated to providing benefits to retirees, and current year contributions exceeding the annual required contribution.	
	101,719,453
The District has refunded its certificates of participation. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents unamortized deferred charges on refunding remaining as of June 30, 2014.	
	636,547
In governmental funds, unamortized interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unamortized interest on long-term obligations is recognized when it is incurred.	
	(141,360)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	
	7,393,499
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
Certificates of participation	33,191,560
Compensated absences (vacations)	4,096,428
Capital leases	10,423,459
Retirement health benefits funding bonds	<u>86,665,000</u>
Total Long-Term Obligations	<u>(134,376,447)</u>
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ 266,017,041</u></u></b>

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

# ORANGE UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local Control Funding Formula	\$ 170,946,694	\$ 9,003,446	\$ 179,950,140
Federal sources	13,611,250	6,519,608	20,130,858
Other State sources	37,905,674	1,388,674	39,294,348
Other local sources	9,389,339	14,292,741	23,682,080
<b>Total Revenues</b>	<u>231,852,957</u>	<u>31,204,469</u>	<u>263,057,426</u>
<b>EXPENDITURES</b>			
Current			
Instruction	138,786,449	8,268,713	147,055,162
Instruction-related activities:			
Supervision of instruction	9,442,712	11,050	9,453,762
Instructional library, media and technology	4,862,333	234,212	5,096,545
School site administration	16,283,184	1,949,666	18,232,850
Pupil services:			
Home-to-school transportation	8,052,039	126,801	8,178,840
Food services	-	7,700,066	7,700,066
All other pupil services	10,617,669	173,588	10,791,257
Administration:			
Data processing	1,842,887	-	1,842,887
All other administration	6,319,124	482,934	6,802,058
Plant services	20,353,600	1,123,355	21,476,955
Facility acquisition and construction	2,105,198	4,184,054	6,289,252
Ancillary services	1,486,888	15,360	1,502,248
Community services	110,693	-	110,693
Other outgo	2,554,056	1,274,318	3,828,374
Debt service			
Principal	2,241,265	2,382,084	4,623,349
Interest and other	1,343,658	874,453	2,218,111
<b>Total Expenditures</b>	<u>226,401,755</u>	<u>28,800,654</u>	<u>255,202,409</u>
<b>Excess of Revenues Over Expenditures</b>	<u>5,451,202</u>	<u>2,403,815</u>	<u>7,855,017</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	6,271	6,271
Other sources - capital leases	1,918,801	-	1,918,801
Transfers out	(328)	(5,943)	(6,271)
<b>Net Financing Sources (Uses)</b>	<u>1,918,473</u>	<u>328</u>	<u>1,918,801</u>
<b>Special Item</b>			
Proceeds from sale of land	-	2,095,057	2,095,057
<b>NET CHANGE IN FUND BALANCES</b>	<u>7,369,675</u>	<u>4,499,200</u>	<u>11,868,875</u>
<b>Fund Balances - Beginning</b>	<u>75,406,137</u>	<u>34,285,390</u>	<u>109,691,527</u>
<b>Fund Balances - Ending</b>	<u>\$ 82,775,812</u>	<u>\$ 38,784,590</u>	<u>\$ 121,560,402</u>

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

# ORANGE UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

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**Total Net Change in Fund Balances - Governmental Funds** **\$ 11,868,875**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 7,976,327	
Depreciation expense	<u>(5,466,225)</u>	
Net Expense Adjustment		2,510,102

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (118,557)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position. (1,918,801)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) 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). This year, vacation earned was more than the amount paid by \$330,109. (330,109)

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide statements as an expense. The actual amount of the contribution was more than the other postemployment benefit cost. 5,166,636

Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and obligations are reported regardless of when financial resources are available. This adjustment reflects the net changes of the following balance:

Amortization of deferred amount on refunding	(62,103)
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The accompanying notes are an integral part of these financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2014**

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Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Certificates of participation	\$ 2,382,084
Retirement health benefits funding bonds	1,600,000
Capital lease obligations	641,265

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

9,735

An Internal Service Fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

711,929

**Change in Net Position of Governmental Activities**

\$ 22,461,056

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 11,639,824
Receivables	3,953
Due from other funds	98,505
<b>Total Current Assets</b>	<u>11,742,282</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	100,755
Due to other funds	28
Current portion of claims liability	1,415,114
<b>Total Current Liabilities</b>	<u>1,515,897</u>
<b>Noncurrent Liabilities</b>	
Noncurrent portion of claims liability and assessment	<u>2,832,886</u>
<b>NET POSITION</b>	
Restricted	<u>7,393,499</u>
<b>Total Net Position</b>	<u><u>\$ 7,393,499</u></u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds	<u>\$ 3,358,091</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	126,719
Supplies and materials	864
Other operating cost	<u>2,552,212</u>
<b>Total Operating Expenses</b>	<u>2,679,795</u>
<b>Operating Income</b>	<u>678,296</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>33,633</u>
<b>Change in Net Position</b>	711,929
<b>Total Net Position - Beginning</b>	<u>6,681,570</u>
<b>Total Net Position - Ending</b>	<u><u>\$ 7,393,499</u></u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from interfund services provided	\$ 5,011,814
Cash payments to other suppliers of goods or services	(864)
Cash payments to employees for services	(126,817)
Cash payments for insurance claims	(2,041,660)
Net Cash Provided by Operating Activities	<u>2,842,473</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	33,633
Net Increase in Cash and Cash Equivalents	<u>2,876,106</u>
Cash and Cash Equivalents - Beginning	8,763,718
Cash and Cash Equivalents - Ending	<u><u>\$ 11,639,824</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 678,296
Changes in assets and liabilities:	
Receivables	(1,792)
Due from other fund	1,655,515
Accrued liabilities	(7,448)
Due to other fund	(98)
Claims liability	518,000
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 2,842,473</u></u>

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

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	<b>Retiree Benefits Trust</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Deposits and investments	\$ 137,944,381	\$ 8,514,674
Receivables	121,435	-
<b>Total Assets</b>	<u>138,065,816</u>	<u>\$ 8,514,674</u>
<b>LIABILITIES</b>		
Accounts payable	3,837,006	\$ -
Due to student groups	-	1,958,361
Due to bondholders	-	6,556,313
<b>Total Liabilities</b>	<u>3,837,006</u>	<u>\$ 8,514,674</u>
<b>NET POSITION</b>		
Restricted	<u>134,228,810</u>	
<b>Total Net Position</b>	<u>\$ 134,228,810</u>	

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

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	<b>Retiree Benefits Trust</b>
<b>ADDITIONS</b>	
Investment earnings	\$ 13,205,565
District contributions	3,835,517
Interest	80,673
<b>Total Additions</b>	<u>17,121,755</u>
 <b>DEDUCTIONS</b>	
Other expenditures	<u>4,443,052</u>
 <b>Change in Net Position</b>	12,678,703
<b>Net Position - Beginning</b>	<u>121,550,107</u>
<b>Net Position - Ending</b>	<u><u>\$ 134,228,810</u></u>

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

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Orange Unified School District (the District) was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty-seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Orange Unified School District, this includes general operations, food service, and student related activities of the District.

#### Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be 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 described below have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District.

The Orange Schools Financing Corporation's (the Corporation) financial activity is presented in the financial statements as the Debt Service Fund and the Special Reserve Fund for Capital Outlay Projects. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. The Orange Unified School District Public Financing Authority's (the CFDs) financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and as an Agency Fund. Long-term obligations of the CFDs do not represent obligations of the District and thus are not included in the government-wide financial statements. Individually-prepared financial statements are not available for the Corporation or the CFDs.

#### Other Related Entities

**Charter School** The District has approved a charter for Santiago Middle School, pursuant to *Education Code* Section 47605. The Charter School is direct-funded and is not considered a component unit of the District.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

#### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Charter School Fund** The Charter School Fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund. The District operates El Rancho Charter Middle School that is accounted for in the Charter School Fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**Capital Project Funds** The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

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

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

**Capital Project Fund for Blended Component Units** The Capital Project Fund for Blended Component Units is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

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

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

**Internal Service Fund** Internal Service Funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates a workers' compensation program that is accounted for in the Internal Service Fund.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District operates a Retiree Benefits Trust Fund. The District's agency fund accounts for student body activities (ASB) and receipt of special taxes for payment of non-obligatory debt related to the CFDs.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund Financial Statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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

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

**Unearned Revenue** Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

### **Investments**

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Prepaid Expenditures (Expenses)**

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

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental and fiduciary funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$50,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 5 to 20 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Position.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the superintendent or designee may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements reports \$28,456,126 of restricted net position, which is restricted by enabling legislation.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for administration of the workers' compensation, property and liability, and health and welfare programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the Statement of Activities.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 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.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$853,547. The decrease results from no longer deferring and amortizing bond issuance costs.

### New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No.68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 129,181,553
Fiduciary funds	146,459,055
Total Deposits and Investments	<u>\$ 275,640,608</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 9,733,376
Cash in revolving	135,000
Investments	265,772,232
Total Deposits and Investments	<u>\$ 275,640,608</u>

#### Policies and Practices

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

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**Authorized Under Debt Agreements**

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Certificates of Deposit and Bankers' Acceptances	1 year	None	None
Commercial Paper	270 days	None	None
Farm Credit System Bonds and Notes	N/A	None	None
Farmers Home Administration Certificates of Beneficial Ownership	N/A	None	None
Federal Credit Banks Bonds and Notes	N/A	None	None
Federal Home Loan Bank System Senior Debt Obligations	N/A	None	None
Federal Home Loan Mortgage Corporation Participation Certificates and Senior Debt Obligations	N/A	None	None
Federal Housing Administration Debentures	N/A	None	None
Federal National Mortgage Association Senior Debt Obligations and Mortgaged-Back Securities	N/A	None	None
Federal Securities	N/A	None	None
Financing Corporation Debt Obligations	N/A	None	None
General Service Administration Participation Certificates	N/A	None	None
Government National Mortgage Association Guaranteed Mortgage-Backed Securities and Guaranteed Participation Certificates	N/A	None	None
Investment Agreements	N/A	None	None
Local Agency Bonds, and Notes	N/A	None	None
Money Market Funds	N/A	None	None
Registered State Bonds and Notes	N/A	None	None
Repurchase Agreements	N/A	None	None
Resolution Funding Corporation Obligations	N/A	None	None
Small Business Administration Guaranteed Participation Certifications	N/A	None	None
Student Loan Marketing Association Senior Debt Obligations	N/A	None	None
Unsecured Certificates of Deposits, Time Deposits, and Bankers' Acceptances	30 days	None	None
U.S. Department of Housing and Urban Development Notes, Bonds, Debentures	N/A	None	None
U.S. Maritime Administration Guaranteed Title XI Financing	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
Washington Metropolitan Area Transit Authority Guaranteed Transit Bonds	N/A	None	None

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Investment Pool and short-term money market funds.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation and the actual rating as of year-end for each investment is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date/ Average Maturity in Days	Standard & Poors & Rating
Orange County Investment Pool	\$ 152,000,871	519	AAA
Fidelity Institutional Governmental Money Market Fund	1,133,104	56	AAA
Bayerische Hypo-Und Vereinsbank Commercial Paper	754,600	9/1/2014	Not rated
<b>Mutual Funds</b>			
Blackrock Equity Dividend Institutional Shares, Class I	4,519,168	-	Not rated
Brandes Institutional Internal Equity Fund, Class I	4,492,441	-	Not rated
Brandes Emerging Markets Fund, Class I	1,690,373	-	Not rated
Cohen & Steers Real Estate Fund, Class I	3,538,591	-	Not rated
John Hancock Classic Value Fund, Class I	4,579,382	-	Not rated
Hartford Capital Appreciation Fund, Class Y	5,754,690	-	Not rated
Hartford Midcap Fund, Class Y	2,405,419	-	Not rated
American Funds New Perspective Fund, Class F2	2,249,909	-	Not rated
American Funds New World Fund, Class F-2	1,678,113	-	Not rated
Nuveen Tradewinders Value Opportunities Fund, Class I	3,446,651	-	Not rated
Prudential Global Real Estate Fund, Class Z	3,464,686	-	Not rated
Royce Value Global Fund, Investment Class	4,722,082	-	Not rated
Royce Special Equity Fund, Investment Class	2,179,658	-	Not rated
Thornburg Investmnet Income Builder Fund, Class I	3,451,702	-	Not rated
Thornburg International Value Fund, Class I	3,150,469	-	Not rated
Delaware Diversified Income Fund, Institutional Class	8,873,182	-	Not rated
Hartford World Bond Fund, Class I	8,604,439	-	Not rated
Legg Mason Bw International Opportunities Bond Fund	4,535,912	-	Not rated
Metropolitan West Total Return Bond Fund	8,698,909	-	Not rated
Prudential Total Return Bond Fund, Class Z	9,912,078	-	Not rated
Templeton Global Bond Fund, Advisor Class	9,922,683	-	Not rated
Western Asset Core Plus Bond Fund, Class I	9,925,653	-	Not rated
Total	\$ 265,684,765		

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### **Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type. The District's investments in the Fidelity Institutional Governmental Money Market Fund and the Orange County Investment Pool are rated AAA by Standard & Poor's rating services. All other investments types have not been rated.

### **Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District had a bank balance of \$8,692,217 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Federal Government					
Categorical aid	\$ 2,460,046	\$ 296,057	\$ -	\$ 2,756,103	\$ -
State Government					
State principal apportionment	7,829,814	-	-	7,829,814	-
Categorical aid	183,592	110,550	-	294,142	-
Lottery	2,080,394	90,458	-	2,170,852	-
Special education	4,108,362	-	-	4,108,362	-
Local Government					
Interest	31,793	13,024	3,953	48,770	9,013
Due from Orange County Department of Education	1,112,032	6,606	-	1,118,638	-
Due from retiree benefits trust	3,835,514	-	-	3,835,514	-
Due from charter school	143,536	-	-	143,536	-
Other Local Sources	1,097,695	51,517	-	1,149,212	112,422
Total	<u>\$ 22,882,778</u>	<u>\$ 568,212</u>	<u>\$ 3,953</u>	<u>\$ 23,454,943</u>	<u>\$ 121,435</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 19,530,176	\$ -	\$ -	\$ 19,530,176
Construction in progress	32,916,136	4,254,239	32,643,964	4,526,411
Total Capital Assets Not Being Depreciated	<u>52,446,312</u>	<u>4,254,239</u>	<u>32,643,964</u>	<u>24,056,587</u>
Capital Assets Being Depreciated:				
Land improvements	14,752,632	-	66,934	14,685,698
Buildings and improvements	158,575,035	32,616,326	131,456	191,059,905
Furniture and equipment	9,964,145	3,749,726	1,871,720	11,842,151
Total Capital Assets Being Depreciated	<u>183,291,812</u>	<u>36,366,052</u>	<u>2,070,110</u>	<u>217,587,754</u>
Total Capital Assets	<u>235,738,124</u>	<u>40,620,291</u>	<u>34,714,074</u>	<u>241,644,341</u>
Less Accumulated Depreciation:				
Land improvements	11,853,959	195,837	66,934	11,982,862
Buildings and improvements	50,221,189	2,924,772	131,456	53,014,505
Furniture and equipment	6,829,574	2,345,616	1,753,163	7,422,027
Total Accumulated Depreciation	<u>68,904,722</u>	<u>5,466,225</u>	<u>1,951,553</u>	<u>72,419,394</u>
Governmental Activities Capital Assets, Net	<u>\$ 166,833,402</u>	<u>\$ 35,154,066</u>	<u>\$ 32,762,521</u>	<u>\$ 169,224,947</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 3,341,247
Supervision of instruction	180,958
Instructional library, media, and technology	98,413
School administration	389,483
Pupil transportation	162,744
Food services	171,079
Other pupil services	224,002
Ancillary services	33,667
Community services	6,098
Other general administration	143,601
Data processing services	30,309
Plant maintenance and operation	684,624
Total Depreciation Expenses Governmental Activities	<u>\$ 5,466,225</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds and internal service funds are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 501,839	\$ 28	\$ 501,867
Non-Major Governmental Funds	2,400,937	2,915	-	2,403,852
Internal Service Fund	83,836	14,669	-	98,505
Total	<u>\$ 2,484,773</u>	<u>\$ 519,423</u>	<u>\$ 28</u>	<u>\$ 3,004,224</u>

The balance of \$170,656 due to the General Fund from the Charter School Non-Major Governmental Fund resulted from payroll taxes, oversight fee, waste service, postage, and printing charges due.

The balance of \$317,336 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from payroll taxes, indirect costs, transportation, bank, and postage charges due.

A balance of \$448,798 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from transfer of revenues pertaining to the District's charter school operation and reimbursement of employee benefits.

A balance of \$1,918,392 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund resulted from transfer of funds subjected to flexibility committed to the District's deferred maintenance program.

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

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**Operating Transfers**

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
Non-Major Governmental Funds	\$ 328	\$ 5,943	\$ 6,271

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for sales taxes owed.	\$ 328
The Child Development Non-Major Governmental Fund transferred to the Cafeteria Non-Major Governmental Fund for sales taxes owed.	64
The County School Facilities Non-Major Governmental Funds transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for reimbursement of qualifying capital expenditures.	<u>5,879</u>
Total	<u>\$ 6,271</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total	Fiduciary Funds
Salaries and benefits	\$ 6,863,760	\$ 796,140	\$ 9,551	\$ 7,669,451	\$ -
State principal apportionment	3,428,462	103,729	-	3,532,191	-
Supplies	826,253	160,840	-	987,093	-
Services	1,611,312	269,588	90,350	1,971,250	-
Due to other charter schools	336,954	-	-	336,954	-
Due to other Districts	259,465	-	-	259,465	-
Due to Orange County Department of Education	1,479,351	-	-	1,479,351	-
Construction	1,051,102	2,633,138	-	3,684,240	-
Due to District	-	-	-	-	3,835,517
Due to retiree benefits trust	95,559	16,662	201	112,422	-
Other vendor payables	687,634	14,845	653	703,132	1,489
Total	<u>\$ 16,639,852</u>	<u>\$ 3,994,942</u>	<u>\$ 100,755</u>	<u>\$ 20,735,549</u>	<u>\$ 3,837,006</u>

**NOTE 7 - UNEARNED REVENUE**

Unearned revenue at June 30, 2014, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 32,941	\$ -	\$ 32,941
State categorical aid	35,055	-	35,055
Other local	17,507	141,112	158,619
Total	<u>\$ 85,503</u>	<u>\$ 141,112</u>	<u>\$ 226,615</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 8 - LONG-TERM OBLIGATIONS**

**Summary**

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
2012 Refunding Certificates of Participation	\$ 35,573,644	\$ -	\$ 2,382,084	\$ 33,191,560	\$ 2,576,861
Compensated absences	3,766,319	330,109	-	4,096,428	-
Capital leases payable	9,145,923	1,918,801	641,265	10,423,459	773,282
Retirement health benefits funding bonds	88,265,000	-	1,600,000	86,665,000	1,700,000
Claims liability	3,730,000	1,933,114	1,415,114	4,248,000	1,415,114
	<u>\$ 140,480,886</u>	<u>\$ 4,182,024</u>	<u>\$ 6,038,463</u>	<u>\$ 138,624,447</u>	<u>\$ 6,465,257</u>

Payments on the Certificates of Participation are made by the Debt Service Fund. Capital leases are paid by the General Fund. Payments on the retirement health benefits funding bonds are made by the General Fund. The accrued vacation was paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.

**2012 Refunding Certificates of Participation**

On September 27, 2012, the Orange Schools Financing Corporation issued the 2012 Refunding Certificates of Participation in the amount of \$38,069,161. The certificates have a final maturity to occur on June 1, 2024, with an interest rate of 2.50 percent. Proceeds from the sale of certificates were used to provide the current refunding of the residual balance on the District's 2003 Certificates of Participation. The refunding resulted in a cumulative cash flow saving of \$3,384,944 over the life of the new debt and an economic gain of \$9,437,500 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.50 percent. As of June 30, 2014, the principal balance outstanding was \$33,191,560.

The certificates mature through 2024 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,576,861	\$ 813,684	\$ 3,390,545
2016	2,777,636	748,007	3,525,643
2017	2,988,918	677,246	3,666,164
2018	2,889,920	603,142	3,493,062
2019	3,095,010	529,612	3,624,622
2020-2024	18,863,215	1,355,532	20,218,747
Total	<u>\$ 33,191,560</u>	<u>\$ 4,727,223</u>	<u>\$ 37,918,783</u>

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$4,096,428.

### Capital Leases

The District has entered into agreements to lease schools buses, vans, computers, and energy retrofit equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	<u>Equipment</u>
Balance, July 1, 2013	\$ 12,689,661
Additions	1,982,324
Payments	<u>(1,071,802)</u>
Balance, June 30, 2014	<u><u>\$ 13,600,183</u></u>

The capital leases have minimum lease payments as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payment</u>
2015	\$ 1,188,587
2016	1,207,137
2017	1,226,615
2018	1,247,100
2019	740,217
2020-2024	4,658,123
2025-2028	<u>3,332,404</u>
Total	13,600,183
Less: Amount Representing Interest	<u>(3,176,724)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 10,423,459</u></u>

### Retirement Health Benefits Funding Bonds

In May 2008, the District issued \$94,765,000 in retirement health benefits funding bonds (The Bonds). The Bonds were issued at an aggregate price of \$93,763,635 (representing the principal amount of \$94,765,000 less issuance costs of \$1,001,365). The Bonds have a final maturity to occur on May 1, 2043, with a variable interest rate (initially at 3.562 percent). Proceeds from the sale of bonds were used to refinance a portion of the District's obligation to pay retirement medical and other health benefits owed to eligible employees and former employees pursuant to certain labor contracts. As of June 30, 2014, the principal balance of \$86,665,000 remained outstanding.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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The bonds mature through 2043 as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,700,000	\$ 866,531	\$ 2,566,531
2016	2,000,000	849,255	2,849,255
2017	2,100,000	829,142	2,929,142
2018	2,100,000	808,110	2,908,110
2019	2,000,000	787,162	2,787,162
2020-2024	12,100,000	3,615,582	15,715,582
2025-2029	14,100,000	2,945,912	17,045,912
2030-2034	17,300,000	2,194,120	19,494,120
2035-2039	20,700,000	1,228,841	21,928,841
2040-2043	12,565,000	284,555	12,849,555
Total	<u>\$ 86,665,000</u>	<u>\$ 14,409,210</u>	<u>\$ 101,074,210</u>

### Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for worker's compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2014, amounted to \$4,248,000, using a discount factor of two percent.

### NOTE 9 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities 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 \$14,455,000 as of June 30, 2014, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>			
Revolving cash	\$ 100,000	\$ 35,000	\$ 135,000
Stores inventories	157,972	76,850	234,822
Prepaid expenditures	1,292,747	-	1,292,747
Total Nonspendable	<u>1,550,719</u>	<u>111,850</u>	<u>1,662,569</u>
<b>Restricted</b>			
Legally restricted programs	7,236,737	7,458,256	14,694,993
Capital projects	-	8,855,926	8,855,926
Debt services	-	1,774,519	1,774,519
Total Restricted	<u>7,236,737</u>	<u>18,088,701</u>	<u>25,325,438</u>
<b>Committed</b>			
Deferred maintenance program	-	8,003,752	8,003,752
<b>Assigned</b>			
Non-resident tuition	84,295	-	84,295
School site balances	144,421	-	144,421
School site/department donations	849,399	-	849,399
LCFF Supplemental	687,283	-	687,283
Medi-Cal administrative activities	424,238	-	424,238
Advanced placement fee reimbursement	21,622	-	21,622
Credential support	19,951	-	19,951
CELD Testing	845	-	845
Adult education CalWorks	31	-	31
Future projects	-	12,580,287	12,580,287
Total Assigned	<u>2,232,085</u>	<u>12,580,287</u>	<u>14,812,372</u>
<b>Unassigned</b>			
Reserve for economic uncertainties	6,616,902	-	6,616,902
Remaining unassigned	65,139,369	-	65,139,369
Total Unassigned	<u>71,756,271</u>	<u>-</u>	<u>71,756,271</u>
Total	<u>\$ 82,775,812</u>	<u>\$ 38,784,590</u>	<u>\$ 121,560,402</u>

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

#### Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Orange Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Eligibility for retiree health benefits and the District's financial contribution varies by employee group and when an employee was hired. Benefits will continue for these employees according to their retiree group. Membership of the Plan consists of 896 retirees and spouses, dependents, if eligible, currently receiving benefits, 25 terminated plan members entitled to but not yet receiving benefits, and 1,542 active plan members.

#### Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (OUEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, OUEA, CSEA and the unrepresented groups. For fiscal year 2013-2014, the District contributed \$5,439,624 to the Plan, all of which was used for current premiums.

#### Annual OPEB Cost and Net OPEB Asset

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

Annual required contribution	\$ 2,744,976
Interest on net OPEB asset	(4,827,641)
Adjustment to annual required contribution	2,615,684
Annual OPEB cost (expense)	<u>533,019</u>
Contributions made	<u>(5,699,655)</u>
Increase in net OPEB asset	5,166,636
Net OPEB asset beginning of year	96,552,817
Net OPEB asset, end of year	<u><u>\$ 101,719,453</u></u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**Trend Information**

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset
2012	\$ (2,155,877)	\$ 3,620,214	268%	\$ 87,732,704
2013	735,081	9,555,194	1300%	96,552,817
2014	533,019	5,699,655	1069%	101,719,453

**Funded Status and Funding Progress**

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
March 1, 2013	\$ 104,639,822	\$ (47,842,502)	\$ (152,482,324)	319%	\$ 28,305,900	(539)%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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In the March 1, 2013, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a 6.2 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial four percent to an ultimate rate of eleven percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2014, was 23 years.

### **NOTE 12 - 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 the fiscal year ending June 30, 2014, the District contracted with Southern California Regional Liability Excess Fund (SoCal ReLiEF) risk management pool for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Association for Excess Risk (SAFER) for amounts in excess of the District's liability limit up to \$25,000,000.

#### **Workers Compensation**

For the fiscal year of 2013-2014, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through Safety National Insurance Company, a commercial insurance carrier.

#### **Employee Medical Benefits**

Effective October 2010, the District has contracted with CalPERS to provide employee health benefits. The District offers dental benefits through Delta Dental (HMO) and California Schools Dental Coalition (PPO). The District also offers vision coverage and term life insurance through Vision Service Plan and Blue Cross, respectively.

#### **Claims Liabilities**

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

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2012	\$ 3,004,000
Claims and changes in estimates	1,710,160
Claims payments	<u>(984,160)</u>
Liability Balance, June 30, 2013	3,730,000
Claims and changes in estimates	1,933,114
Claims payments	<u>(1,415,114)</u>
Liability Balance, June 30, 2014	<u>\$ 4,248,000</u>
Assets available to pay claims at June 30, 2014	<u><u>\$ 11,742,282</u></u>

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

#### CalSTRS

##### Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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### **Funding Policy**

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$8,899,806, \$8,580,410, and \$8,467,006, respectively, and equal 100 percent of the required contributions for each year.

### **CalPERS**

#### **Plan Description**

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

#### **Funding Policy**

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan member are established by State statute. The District's contribution to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$4,893,657, \$5,840,290, and \$5,625,654, respectively, and equal 100 percent of the required contribution for each year.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Public Agency Retirement System (PARS)

The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by Federal law, all public sector employees who are not members of their employee's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$93,660, which was 1.3 percent of its current-year covered payroll. Employee contributions amounted to \$443,672.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,838,718 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2014.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**Construction Commitments**

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	Remaining Construction Commitment	Expected Date of Completion
Network Cabling - 25 Schools	\$ 107,788	8/31/2014
El Rancho Energy Project	75,000	8/31/2014
	<u>\$ 182,788</u>	

**NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES  
AND OTHER RELATED PARTY TRANSACTIONS**

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

The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. The audited financial statements are available from the entity. During the year ended June 30, 2014, the District made \$1,000,913, for the coverage noted above.

**NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION**

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

<b>Statement of Net Position</b>	
Net Position - Beginning	\$ 244,409,532
Elimination of cost of issuance from adoption of GASB Statement No. 65	(853,547)
Net Position - Beginning as Restated	<u>\$ 243,555,985</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive (Negative)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 171,009,694	\$ 170,946,694	\$ 170,946,694	\$ -
Federal sources	15,518,554	15,518,554	13,611,250	(1,907,304)
Other State sources	32,138,571	32,138,571	37,905,674	5,767,103
Other local sources	9,498,520	9,498,520	9,389,339	(109,181)
<b>Total Revenues <sup>1</sup></b>	<b>228,165,339</b>	<b>228,102,339</b>	<b>231,852,957</b>	<b>3,750,618</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	107,529,181	107,529,181	105,139,936	2,389,245
Classified salaries	36,434,262	36,434,262	36,056,764	377,498
Employee benefits	44,910,186	44,910,186	49,556,534	(4,646,348)
Books and supplies	16,337,884	16,337,884	8,577,745	7,760,139
Services and operating expenditures	24,797,176	24,797,176	17,592,581	7,204,595
Capital outlay	3,982,220	3,982,220	3,819,910	162,310
Other outgo	2,153,676	2,157,330	2,073,362	83,968
Debt service - principal	2,240,903	2,240,903	2,241,265	(362)
Debt service - interest	1,568,878	1,568,878	1,343,658	225,220
<b>Total Expenditures <sup>1</sup></b>	<b>239,954,366</b>	<b>239,958,020</b>	<b>226,401,755</b>	<b>13,556,265</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(11,789,027)</b>	<b>(11,855,681)</b>	<b>5,451,202</b>	<b>17,306,883</b>
<b>Other Financing Sources</b>				
Other sources - capital leases	1,918,802	1,918,801	1,918,801	-
Transfers out	(328)	(328)	(328)	-
<b>Net Financing Sources</b>	<b>1,918,474</b>	<b>1,918,473</b>	<b>1,918,473</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(9,870,553)</b>	<b>(9,937,208)</b>	<b>7,369,675</b>	<b>17,306,883</b>
<b>Fund Balances - Beginning</b>	<b>75,406,137</b>	<b>75,406,137</b>	<b>75,406,137</b>	<b>-</b>
<b>Fund Balances - Ending</b>	<b>\$ 65,535,584</b>	<b>\$ 65,468,929</b>	<b>\$ 82,775,812</b>	<b>\$ 17,306,883</b>

<sup>1</sup> On behalf payments of \$5,838,718 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2014**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
December 1, 2009	\$ 97,237,770	\$ (40,750,535)	\$ (137,988,305)	339%	\$ 41,711,505	(331)%
June 1, 2011	106,455,005	(52,725,881)	(159,180,886)	302%	25,588,697	(622)%
March 1, 2013	104,639,822	(47,842,502)	(152,482,324)	319%	28,305,900	(539)%

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*SUPPLEMENTARY INFORMATION*

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**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Indian Education	84.060	[1]	\$ 60,294
Readiness and Emergency Management for Schools	84.184E	[1]	23,812
Passed through California Department of Education (CDE)			
No Child Left Behind Act (NCLB)			
Title I, Part A - Low Income and Neglected	84.010	14329	4,013,233
Title II, Part A - Improving Teacher Quality	84.367	14341	1,153,010
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	14831	61,826
Title III, Part A - Limited English Proficient Student Program	84.365	14346	489,641
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance Entitlement	84.027	13379	4,959,470
Local Assistance Private Schools ISP	84.027	10115	23,825
Preschool Grant, Part B	84.173	13430	128,269
Preschool Staff Development	84.173A	13431	1,882
Mental Health Services	84.027A	14468	518,926
Preschool Local Entitlement	84.027A	13682	244,929
Subtotal Special Education (IDEA) Cluster			<u>5,877,301</u>
Early Intervention Grants	84.181	23761	86,305
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education - Secondary Education	84.048	14894	193,058
Total U.S. Department of Education			<u>11,958,480</u>

[1] Direct award, no Pass-Through Entity Identifying Number.

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services			
Child Development - California State Preschool Program	93.596	13609, 15136	\$ 111,189
Medi-Cal Assistance Program:			
Medi-Cal Billing Option	93.778	10013	1,367,216
Medi-Cal Administrative Activities	93.778	10060	265,306
Subtotal Medi-Cal Assistance Program			<u>1,632,522</u>
Total U.S. Department of Health and Human Services			<u>1,743,711</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	4,490,733
Meal Supplements	10.555	13396	144,682
Basic School Breakfast Program	10.553	13390	10,830
Especially Needy Breakfast Program	10.553	13526	1,235,052
Commodities	10.555	13396	527,122
Subtotal Child Nutrition Cluster			<u>6,408,419</u>
Forest Reserve	10.665	10044	18,845
Total U.S. Department of Agriculture			<u>6,427,264</u>
Total Federal Programs			<u>\$ 20,129,455</u>

See accompanying note to supplementary information.

# ORANGE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

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### ORGANIZATION

The Orange Unified School District was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
John Ortega	President	2016
Alexia L Deligianni, Ed.D	Vice President	2016
Mark D. Wayland	Clerk	2016
Rick Ledesma	Member	2014
Kathryn A. Moffat	Member	2014
Diane Singer	Member	2014
Timothy Surridge	Member	2014

### ADMINISTRATION

Michael L. Christensen, MBA	Superintendent
Joe Sorrera	Assistant Superintendent, Business Services/CBO
Ed Kisse	Assistant Superintendent, Human Resources
Gunn Marie Hansen, Ph.D	Deputy Superintendent, Educational Services

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Final Report	
	Second Period	Annual
	Report 07BD84B3	Report 1663D5C7
Regular ADA		
Transitional kindergarten through third	8,786.00	8,778.26
Fourth through sixth	6,363.98	6,356.61
Seventh and eighth	2,342.74	2,333.44
Ninth through twelfth	8,918.56	8,861.49
Total Regular ADA	<u>26,411.28</u>	<u>26,329.80</u>
Extended Year Special Education		
Transitional kindergarten through third	18.33	18.33
Fourth through sixth	9.90	9.90
Seventh and eighth	2.55	2.55
Ninth through twelfth	8.95	8.95
Total Extended Year Special Education	<u>39.73</u>	<u>39.73</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	4.09	4.86
Fourth through sixth	9.30	9.61
Seventh and eighth	7.25	7.79
Ninth through twelfth	13.28	14.33
Total Special Education, Nonpublic, Nonsectarian Schools	<u>33.92</u>	<u>36.59</u>
Extended Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.87	0.87
Fourth through sixth	1.27	1.27
Seventh and eighth	0.76	0.76
Ninth through twelfth	1.90	1.90
Total Extended Special Education, Nonpublic, Nonsectarian Schools	<u>4.80</u>	<u>4.80</u>
Community Day School		
Seventh and eighth	5.14	6.61
Ninth through twelfth	22.49	22.72
Total Community Day School	<u>27.63</u>	<u>29.33</u>
Total ADA	<u>26,517.36</u>	<u>26,440.25</u>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE, Continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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	Final Report	
	Second Period Report 3CC01C13	Annual Report 9C0EA9DE
<b>CHARTER SCHOOL</b>		
Regular ADA		
Seventh and eighth	1,156.81	1,158.57
Total Regular ADA	<u>1,156.81</u>	<u>1,158.57</u>
Classroom based ADA		
Seventh and eighth	1,156.70	1,158.25
Total Classroom Based ADA	<u>1,156.70</u>	<u>1,158.25</u>

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2014**

Grade Level	1986-87	Reduced	2013-14 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	47,790	179	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			50,370	179	-	Complied
Grade 2			50,370	179	-	Complied
Grade 3			50,370	179	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			53,720	179	-	Complied
Grade 5			53,720	179	-	Complied
Grade 6			53,720	179	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			62,532	179	-	Complied
Grade 8			62,532	179	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			64,464	179	-	Complied
Grade 10			64,464	179	-	Complied
Grade 11			64,464	179	-	Complied
Grade 12			64,464	179	-	Complied

**CHARTER SCHOOL**

Grade Level	1986-87	Reduced	2013-14 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 7 - 8	54,000	52,547				
Grade 7			63,714	182	-	Complied
Grade 8			63,726	181	-	Complied

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

	(Budget) 2015 <sup>1</sup>	2014	2013	2012
<b>GENERAL FUND</b>				
Revenues	\$ 236,881,998	\$ 231,852,957	\$ 219,433,323	\$ 230,768,154
Other sources	-	1,918,801	-	-
Total Revenues and Other Sources	236,881,998	233,771,758	219,433,323	230,768,154
Expenditures	249,222,946	226,401,755	218,839,956	213,969,347
Other uses and transfers out	300	328	959,432	964,921
Total Expenditures and Other Uses	249,223,246	226,402,083	219,799,388	214,934,268
<b>INCREASE (DECREASE) IN FUND BALANCES</b>	<u>\$ (12,341,248)</u>	<u>\$ 7,369,675</u>	<u>\$ (366,065)</u>	<u>\$ 15,833,886</u>
<b>ENDING FUND BALANCES</b>	<u>\$ 70,434,564</u>	<u>\$ 82,775,812</u>	<u>\$ 75,406,137</u>	<u>\$ 75,772,202</u>
<b>AVAILABLE RESERVES <sup>2</sup></b>	<u>\$ 69,470,588</u>	<u>\$ 71,756,271</u>	<u>\$ 66,849,072</u>	<u>\$ 67,868,057</u>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup></b>	<u>27.87%</u>	<u>32.53%</u>	<u>31.19%</u>	<u>32.38%</u>
<b>LONG-TERM OBLIGATIONS</b>	<u>N/A</u>	<u>\$ 138,624,447</u>	<u>\$ 140,480,886</u>	<u>\$ 156,973,734</u>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup></b>	<u>26,280</u>	<u>26,517</u>	<u>26,599</u>	<u>26,978</u>

The General Fund balance has increased by \$7,003,610 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$12,341,248 (14.9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have decreased by \$18,347,287 over the past two years.

Average daily attendance has decreased by 461 over the past two years. An additional decline of 237 ADA is anticipated during fiscal year 2014-2015.

<sup>1</sup> Budget 2015 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> On behalf payments of \$5,838,718, \$5,504,659 and \$5,348,075 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2014, 2013 and 2012, respectively.

<sup>4</sup> Excludes charter school ADA.

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2014**

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Name of Charter School	Included in Audit Report
Santiago Middle School (0066)	No
El Rancho Charter School (0445)	Yes

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	<b>Charter School Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>				
Deposits and investments	\$ 3,342,459	\$ 698,782	\$ 4,327,856	\$ 6,265,326
Receivables	98,189	137,684	281,930	42,154
Due from other funds	448,798	33,747	-	1,918,392
Stores inventories	-	-	76,850	-
<b>Total Assets</b>	<b>\$ 3,889,446</b>	<b>\$ 870,213</b>	<b>\$ 4,686,636</b>	<b>\$ 8,225,872</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 411,061	\$ 383,512	\$ 424,015	\$ 222,120
Due to other funds	171,832	20,517	324,140	-
Unearned revenue	-	-	141,112	-
<b>Total Liabilities</b>	<b>582,893</b>	<b>404,029</b>	<b>889,267</b>	<b>222,120</b>
<b>Fund Balances:</b>				
Nonspendable	25,000	-	86,850	-
Restricted	3,281,553	466,184	3,710,519	-
Committed	-	-	-	8,003,752
Assigned	-	-	-	-
<b>Total Fund Balances</b>	<b>3,306,553</b>	<b>466,184</b>	<b>3,797,369</b>	<b>8,003,752</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,889,446</b>	<b>\$ 870,213</b>	<b>\$ 4,686,636</b>	<b>\$ 8,225,872</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund For Capital Outlay Projects</b>	<b>Capital Project Fund for Blended Component Units</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 4,321,497	\$ 1,405,482	\$ 14,123,861	\$ 4,131,687	\$ 1,774,203	\$ 40,391,153
1,502	491	4,977	969	316	568,212
-	-	-	2,915	-	2,403,852
-	-	-	-	-	76,850
<u>\$ 4,322,999</u>	<u>\$ 1,405,973</u>	<u>\$ 14,128,838</u>	<u>\$ 4,135,571</u>	<u>\$ 1,774,519</u>	<u>\$ 43,440,067</u>
\$ 248	\$ 994,249	\$ 1,545,617	\$ 14,120	\$ -	\$ 3,994,942
-	-	2,934	-	-	519,423
-	-	-	-	-	141,112
<u>248</u>	<u>994,249</u>	<u>1,548,551</u>	<u>14,120</u>	<u>-</u>	<u>4,655,477</u>
-	-	-	-	-	111,850
4,322,751	411,724	-	4,121,451	1,774,519	18,088,701
-	-	-	-	-	8,003,752
-	-	12,580,287	-	-	12,580,287
<u>4,322,751</u>	<u>411,724</u>	<u>12,580,287</u>	<u>4,121,451</u>	<u>1,774,519</u>	<u>38,784,590</u>
<u>\$ 4,322,999</u>	<u>\$ 1,405,973</u>	<u>\$ 14,128,838</u>	<u>\$ 4,135,571</u>	<u>\$ 1,774,519</u>	<u>\$ 43,440,067</u>

**ORANGE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Charter School Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 7,085,054	\$ -	\$ -	\$ 1,918,392
Federal sources	-	111,189	6,408,419	-
Other State sources	456,548	475,938	456,188	-
Other local sources	83,991	4,863,193	1,850,223	60,998
<b>Total Revenues</b>	<b>7,625,593</b>	<b>5,450,320</b>	<b>8,714,830</b>	<b>1,979,390</b>
<b>EXPENDITURES</b>				
Current				
Instruction	3,860,881	4,407,832	-	-
Instruction-related activities:				
Supervision of instruction	-	11,050	-	-
Instructional library, media, and technology	231,061	3,151	-	-
School site administration	1,019,923	929,743	-	-
Pupil services:				
Home-to-school transportation	126,801	-	-	-
Food services	713	-	7,699,353	-
All other pupil services	171,153	2,435	-	-
Administration:				
All other administration	2,232	168,101	312,594	-
Plant services	560,402	30,722	-	531,828
Facility acquisition and construction	365,871	-	-	-
Ancillary services	15,360	-	-	-
Other outgo	1,274,318	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<b>7,628,715</b>	<b>5,553,034</b>	<b>8,011,947</b>	<b>531,828</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,122)</b>	<b>(102,714)</b>	<b>702,883</b>	<b>1,447,562</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	392	-
Transfers out	-	(64)	-	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>(64)</b>	<b>392</b>	<b>-</b>
<b>Special Item</b>				
Proceeds from sale of land	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>(3,122)</b>	<b>(102,778)</b>	<b>703,275</b>	<b>1,447,562</b>
<b>Fund Balances - Beginning</b>	<b>3,309,675</b>	<b>568,962</b>	<b>3,094,094</b>	<b>6,556,190</b>
<b>Fund Balances - Ending</b>	<b>\$ 3,306,553</b>	<b>\$ 466,184</b>	<b>\$ 3,797,369</b>	<b>\$ 8,003,752</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund For Capital Outlay Projects</b>	<b>Capital Project Fund for Blended Component Units</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,003,446
-	-	-	-	-	6,519,608
-	-	-	-	-	1,388,674
1,279,044	4,839	61,681	1,826,738	4,262,034	14,292,741
1,279,044	4,839	61,681	1,826,738	4,262,034	31,204,469
-	-	-	-	-	8,268,713
-	-	-	-	-	11,050
-	-	-	-	-	234,212
-	-	-	-	-	1,949,666
-	-	-	-	-	126,801
-	-	-	-	-	7,700,066
-	-	-	-	-	173,588
7	-	-	-	-	482,934
-	-	403	-	-	1,123,355
2,734	64,924	2,249,108	1,501,417	-	4,184,054
-	-	-	-	-	15,360
-	-	-	-	-	1,274,318
-	-	-	-	2,382,084	2,382,084
-	-	-	-	874,453	874,453
2,741	64,924	2,249,511	1,501,417	3,256,537	28,800,654
1,276,303	(60,085)	(2,187,830)	325,321	1,005,497	2,403,815
-	-	5,879	-	-	6,271
-	(5,879)	-	-	-	(5,943)
-	(5,879)	5,879	-	-	328
-	-	2,095,057	-	-	2,095,057
1,276,303	(65,964)	(86,894)	325,321	1,005,497	4,499,200
3,046,448	477,688	12,667,181	3,796,130	769,022	34,285,390
\$ 4,322,751	\$ 411,724	\$ 12,580,287	\$ 4,121,451	\$ 1,774,519	\$ 38,784,590

**ORANGE UNIFIED SCHOOL DISTRICT**

**GENERAL FUND SELECTED FINANCIAL INFORMATION  
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND  
CHANGES OF FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Actual Results for the Years					
	2013-2014		2012-2013		2011-2012	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal revenue	\$ 13,611,250	5.9	\$ 14,889,381	6.8	\$ 20,293,885	8.8
State and local revenue included in Local Control Funding Formula	170,946,694	73.7	142,164,638	64.8	147,994,098	64.1
Other State revenue	37,905,674	16.4	53,919,570	24.5	53,995,017	23.4
Other local revenue	9,389,339	4.0	8,459,734	3.9	8,485,154	3.7
<b>Total Revenues</b>	<b>231,852,957</b>	<b>100.0</b>	<b>219,433,323</b>	<b>100.0</b>	<b>230,768,154</b>	<b>100.0</b>
<b>EXPENDITURES</b>						
Salaries and Benefits						
Certificated salaries	105,139,936	45.3	101,553,923	46.3	103,630,406	44.9
Classified salaries	36,056,764	15.6	33,176,132	15.1	33,150,144	14.4
Employee benefits	49,556,534	21.4	55,825,264	25.5	46,922,052	20.4
<b>Total Salaries and Benefits</b>	<b>190,753,234</b>	<b>82.3</b>	<b>190,555,319</b>	<b>86.9</b>	<b>183,702,602</b>	<b>79.7</b>
Books and supplies	8,577,745	3.7	6,803,067	3.1	6,512,033	2.8
Contracts and operating expenses	17,592,581	7.6	16,749,379	7.7	16,977,060	7.4
Capital outlay	3,819,910	1.7	101,666	0.0	79,276	0.0
Other outgo	5,658,285	2.4	4,630,525	2.1	6,698,376	2.9
<b>Total Expenditures</b>	<b>226,401,755</b>	<b>97.7</b>	<b>218,839,956</b>	<b>99.8</b>	<b>213,969,347</b>	<b>92.8</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>5,451,202</b>	<b>2.3</b>	<b>593,367</b>	<b>0.2</b>	<b>16,798,807</b>	<b>7.2</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Other financing sources	1,918,801	0.8	-	0.0	-	0.0
Transfers out	(328)	0.0	(959,432)	(0.4)	(964,921)	(0.4)
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>7,369,675</b>	<b>3.1</b>	<b>(366,065)</b>	<b>(0.2)</b>	<b>15,833,886</b>	<b>6.8</b>
FUND BALANCE, BEGINNING	75,406,137		75,772,202		59,938,316	
FUND BALANCE, ENDING	<u>\$ 82,775,812</u>		<u>\$ 75,406,137</u>		<u>\$ 75,772,202</u>	

See accompanying note to supplementary information.

**ORANGE UNIFIED SCHOOL DISTRICT**

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION  
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Actual Results for the Years					
	2013-2014		2012-2013		2011-2012	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal	\$ 6,408,419	73.6	\$ 5,951,351	72.8	\$ 5,860,360	71.3
State meal program	456,188	5.2	449,910	5.5	467,893	5.7
Food sales	1,736,791	19.9	1,714,572	21.0	1,863,758	22.7
Other	113,432	1.3	57,963	0.7	24,913	0.3
Total Revenues	<u>8,714,830</u>	<u>100.0</u>	<u>8,173,796</u>	<u>100.0</u>	<u>8,216,924</u>	<u>100.0</u>
<b>EXPENDITURES</b>						
Salaries and employee benefits	3,686,179	42.3	3,504,461	42.9	3,527,555	42.9
Food	3,655,816	41.9	3,420,465	41.8	3,199,672	38.9
Supplies	132,061	1.5	178,674	2.1	136,739	1.6
Other	537,891	6.2	410,437	5.1	304,166	3.8
Total Expenditures	<u>8,011,947</u>	<u>91.9</u>	<u>7,514,037</u>	<u>91.9</u>	<u>7,168,132</u>	<u>87.2</u>
<b>INCREASE IN FUND BALANCE</b>	702,883	<u>8.1</u>	659,759	<u>8.1</u>	1,048,792	<u>12.8</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	392	0.0	236	0.0	-	0.0
Transfers out	-	0.0	-	0.0	-	0.0
<b>FUND BALANCE, BEGINNING</b>	<u>3,094,094</u>		<u>2,434,099</u>		<u>1,385,307</u>	
<b>FUND BALANCE, ENDING</b>	<u>\$ 3,797,369</u>		<u>\$ 3,094,094</u>		<u>\$ 2,434,099</u>	
* * * * *						
<b>TYPE 'A' LUNCH/BREAKFAST PARTICIPATION</b>						
	2013-2014		2012-2013		2011-2012	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>TYPE 'A' LUNCHES</b>						
Paid	287,395	16.3	460,465	24.3	340,044	18.5
Reduced price	136,542	7.7	146,778	7.8	145,138	7.9
Free	1,338,857	76.0	1,285,536	67.9	1,356,097	73.6
Total Lunches	<u>1,762,794</u>	<u>100.0</u>	<u>1,892,779</u>	<u>100.0</u>	<u>1,841,279</u>	<u>100.0</u>
<b>BREAKFAST</b>						
Paid	40,414	5.8	39,100	5.9	39,591	5.9
Reduced price	45,638	6.5	46,149	6.9	44,476	6.6
Free	610,808	87.7	581,242	87.2	586,009	87.5
Total Breakfast	<u>696,860</u>	<u>100.0</u>	<u>666,491</u>	<u>100.0</u>	<u>670,076</u>	<u>100.0</u>

See accompanying note to supplementary information.

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues, but unspent. These unspent balances have been expended in the current period. Additionally, although Title I, Part G - Advanced Placement Test Fee Reimbursement Program and Medi-Cal Administrative Activities funds are considered unrestricted funds, the District monitors and tracks both of the programs' activities under the assigned fund balance in the General Fund, and the following schedule outlines the differences in program expenditures in comparison to current year's revenues received:

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 20,130,858
Title I, Part G - Advanced Placement Test Fee Reimbursement Program	84.330	(16,543)
Medi-Cal Billing Option	93.778	136,144
Medi-Cal Administrative Activities	93.778	(121,004)
Total Schedule of Expenditures of Federal Awards		<u>\$ 20,129,455</u>

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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

# ORANGE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the School District and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

### **General Fund Selected Financial Information**

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

### **Cafeteria Fund Selected Financial Information**

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria fund for the past three years.

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Orange Unified School District  
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Orange Unified School District's basic financial statements, and have issued our report thereon dated November 3, 2014.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 16 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Orange Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orange Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of Orange Unified School District in a separate letter dated November 3, 2014.

**Purpose of This Report**

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

VAORZNEK, TIZAS, DAY + QUAP

Rancho Cucamonga, California  
November 3, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board  
Orange Unified School District  
Orange, California

**Report on Compliance for Each Major Federal Program**

We have audited Orange Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orange Unified School District's (the District) major Federal programs for the year ended June 30, 2014. Orange Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Orange Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Opinion on Each Major Federal Program

In our opinion, Orange Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of Orange Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Orange Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

VAORNEK, TRINIS Day + Co. P

Rancho Cucamonga, California  
November 3, 2014



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Orange Unified School District  
Orange, California

### Report on State Compliance

We have audited Orange Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Orange Unified School District's State government programs as noted below for the year ended June 30, 2014.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Orange Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

### Unmodified Opinion on Each of the Programs

In our opinion, Orange Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

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

	Procedures in Audit Guide	Procedures Performed
<b>Attendance Accounting:</b>		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	Yes, see below
<b>Instructional Time:</b>		
School Districts	10	Yes
<b>Instructional Materials:</b>		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Not Applicable
<b>After School Education and Safety Program:</b>		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
<b>Charter Schools:</b>		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	No, see below
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Yes
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for Independent Study and Charter School Independent Study because it did not meet the materiality threshold. Additionally, we did not perform steps related to Work Experience for Continuation Education because it was not offered by the District.

*VAORNEK, TRINA Day + Co. P*

Rancho Cucamonga, California  
November 3, 2014

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**ORANGE UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Low Income and Neglected</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>93.778</u>	<u>Medi-Cal Assistance Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 603,884</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**ORANGE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.

**ORANGE UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.

**ORANGE UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.

**ORANGE UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

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There were no audit findings reported in the prior year's schedule of findings and questioned costs.



Governing Board  
Orange Unified School District  
Orange, California

In planning and performing our audit of the financial statements of Orange Unified School District for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 3, 2014 on the government-wide financial statements of the District.

### ***INTERNAL CONTROLS***

#### *El Rancho Charter School Revolving Account*

#### **Observations**

The following observations were made in connection with El Rancho Charter School's revolving cash account:

1. The revolving fund is used primarily for emergency or small disbursements and reimbursed periodically through properly documented expenditures, which are summarized and charged to proper accounting classifications. The usage of the revolving cash account is generally governed by a specific policy to ensure that the revolving cash account is only utilized for such specifically defined activities. We noted that El Rancho Charter School did not have a defined revolving cash account usage policy during a portion of the 2013-2014 fiscal year. Consequently, it appears that approximately 10 percent of El Rancho Charter School's total non-payroll disbursements were paid using the revolving cash account, rather than these expenditures being paid through the District's developed disbursement process. In contrast, the District's total payments using its revolving cash account was less than 1 percent of the total 2013-2014 non-payroll disbursements.
2. Based on our inquiry with El Rancho Charter School's personnel, it appears that there is a deficiency in the procedure in place to identify independent contractors/vendors that may be subject to income reporting requirements set forth by the Internal Revenue Service (IRS). This problem appears attributable to the non-payroll disbursements made from El Rancho Charter School's revolving cash account as these disbursements may not be captured by the District when issuing Form 1099. Specifically, it appears that El Rancho Charter School may not be collecting Form W-9 which is essential to the filing of an annual return with the IRS (Form 1096) for all Form 1099s issued to contractors/vendors exceeding a certain earnings threshold as determined by the IRS. As the El Rancho Charter School utilizes the District's tax identification number, collection of this information is necessary for the District's ongoing compliance with IRS reporting requirements.

## **Recommendations**

1. El Rancho Charter School drafted and adopted a revolving cash account policy in January of 2014. However, we recommend that the policy should be revisited to further control the manner and frequency in which the revolving account will be utilized. Amendments to the policy may include a ceiling for each transaction processed through the account and the nature of transactions being processed. Additionally, amendments to the policy should be developed with the District's administrative personnel to ensure that the policy functions, in conjunction with the District's disbursement process, a process that has been developed to ensure sound business practices, are maintained in relation to a strong internal control structure while adhering to applicable compliance requirements.
2. Absent El Rancho Charter School maintaining a unique tax identification number, the burden of filing the necessary annual tax return is the responsibility of the District. Accordingly, in order to ensure the proper filing of this information with the IRS, it is recommended that El Rancho Charter School begin collecting Form W-9 from all vendors that it engages in business transactions with. Minimizing the usage of the revolving cash account to emergency or small disbursements will assist El Rancho Charter School in the collection of this information.

## ***ASSOCIATED STUDENT BODY***

### *Orange High School*

#### **Observation**

During testing of receipts, we noted that sampled sales receipts were deposited ten days past initial receipt of fundraising funds.

#### **Recommendation**

At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

#### **Observation**

During testing of receipts, we noted that fundraising activities did not provide supporting documentation for items sold.

#### **Recommendation**

Due to the high level of susceptibility to theft or loss, accountability of cash should be assigned to all steps during the cash receipting/depositing procedures. In order to ensure completeness of cash remitted by club advisors, deposits must be accompanied by receipts or other supporting documents that can assist in the reconciliation of cash remitted to the ASB.

#### **Observation**

During testing of disbursements, we noted that not all disbursements were pre-approved before commitment was made with the vendor.

## **Recommendation**

In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

*Cerro Villa Middle School*

## **Observation**

During our audit of the ASB's internal controls, we noted the following:

1. Cash disbursements are not always pre-approved by the ASB. Five of the 18 disbursements reviewed were not approved prior to the transactions taking place.
2. Council minutes do not adequately reflect student's approval of fundraising activities.
3. One of the 18 disbursements tested was registration for CAHPERD PE conference. This appears to be an unallowed expense for the ASB.

## **Recommendation**

1. The site should ensure all cash disbursements are being pre-approved by the ASB prior to the purchasing of the goods or services. ASB policy should be communicated to club advisors regarding the disbursement process. Preapproval from the ASB is necessary for all cash disbursements to ensure goods and services being purchased are allowable and necessary for the student body.
2. All fundraising activities must receive approval by the ASB. The minutes taken should include details of the meeting including budgeting procedures, fund raising discussions, and approval of expenditures.
3. In order to ensure all disbursements are appropriate for the ASB, the site should notify club advisors of allowable and unallowable expenses for the student body. Also disbursements should be pre-approved prior to purchasing. In this case the ASB was not aware that the expenses charged to the ASB were unallowable. The ASB should gain an understanding of appropriate expenditures for the ASB in order to act as a control to prevent unallowable expenditures from happening.

*El Rancho Charter Middle School*

## **Observation:**

During our audit of the ASB's internal controls, we noted the following issue:

1. One of the 18 disbursements reviewed was not approved by the ASB prior to the transaction taking place.

**Recommendation:**

In order to ensure all disbursements are appropriate for the ASB, the site should notify club advisors of allowable and unallowable expenses for the student body. The ASB should gain an understanding of appropriate expenditures for the ASB in order to act as a control to prevent unallowable expenditures from happening. The site should ensure all cash disbursements are being pre-approved by the ASB prior to purchasing the goods or services.

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

VAJZNEK, TIZAS Day + QUP

Rancho Cucamonga, California  
November 3, 2014