



ANNUAL FINANCIAL REPORT

JUNE 30, 2016

ORCUTT UNION SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Orcutt Union School District
Orcutt, 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 Orcutt Union School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orcutt Union School District, as of June 30, 2016, 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 – Restatement

As discussed in Note 16 to the financial statements, the District restated the beginning balance on the Statement of Activities. 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 management's discussion and analysis on pages 5 through 20, budgetary comparison schedules on pages 73 and 74, schedule of other postemployment benefits funding progress on page 75, schedule of the district's proportionate share of net pension liability on page 76, and the schedule of district contributions on page 77, 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 Orcutt Union 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 Schedule of Expenditures of Federal Awards and other accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2016, on our consideration of the Orcutt Union 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 Orcutt Union School District's internal control over financial reporting and compliance.

Vannink, Tein, Day & Co., LLP

Rancho Cucamonga, California
November 12, 2016



Where a Dedicated Staff Means
KIDS COME FIRST

BOARD OF TRUSTEES
ROB BUCHANAN
ROBERT HATCH
DR. JAMES PETERSON
LIZ PHILLIPS
JANET ZILLI

DEBORAH BLOW, Ed.D.
District Superintendent
WALTER CON
Assistant Superintendent
HOLLY EDDS, Ed.D.
Assistant Superintendent
DON NICHOLSON
Assistant Superintendent
KIRBY FELL
Chief Technology Officer

This section of Orcutt Union 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, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. 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, business-type, and fiduciary.

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

The *Business-Type Activities* are prepared using the economic resources measurement focus and the 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 Orcutt Union School District.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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 liabilities, 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 are one indicator of whether *its financial health is* improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

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.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund 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.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal year include the following:

- Combined fund balance for the District is \$19,901,710. This is an increase of \$2,292,619 or approximately 13 percent from prior year.
- The District maintained reserves for economic uncertainties which are calculated at three percent of General Fund expenditures and other financing uses.
- Capital Improvements realized for the year include the various equipment for a total cost of \$1,339,499.
- This is the third year of the new state funding formula which is now the Local Control Funding Formula (LCFF).
- Overall increase in funding from prior year LCFF is 10.61 percent.
- Categorical funding of approximately \$3.5 million were rolled into the LCFF.
- Negotiated with bargaining units provided an ongoing increase on the salary in addition to health increases. Total increased payroll cost were approximately \$2.8 million.

Enrollment

The number of students served is the basis for most revenues that flow into the District. The most consistent measurement of enrollment by school districts in California is the enrollment count in October of each year. The count in October, as mandated by the State, is utilized to give districts consistent numbers for a year-to-year analysis. This enrollment is called CALPADS (California Longitudinal Pupil Achievement Data System, previously known as CSIS.) Although the October CALPADS is the first solid indicator of enrollment for the year, the District's largest source of revenue in any fiscal year is based on P-2 ADA. This is the second period of Average Daily Attendance which is the average student attendance between July 1 and April 15. The District receives money only on those students who actually attend school. Annual ADA is calculated at year-end and adjustments are made in the subsequent year. The percentage of enrollment to ADA for current year is 96.6 percent.

Comparisons

In 2015-2016, the traditional District operated within the General Fund decreased by 12 students while the Orcutt Academy Charter School, operated within Fund 09, decreased by 16 students. The traditional district enrollment has stabilized and is projected to remain fairly flat in the upcoming years unless a significant local event affects demographics or if the district chooses to accept neighboring district's students. Unless the Independent Study portion of the Charter School increases, the Charter School is anticipated to flatten out as well. The Independent Study portion of the Charter School utilizes three classrooms at the Casmalia School site.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Chart A-1 Enrollment/ADA

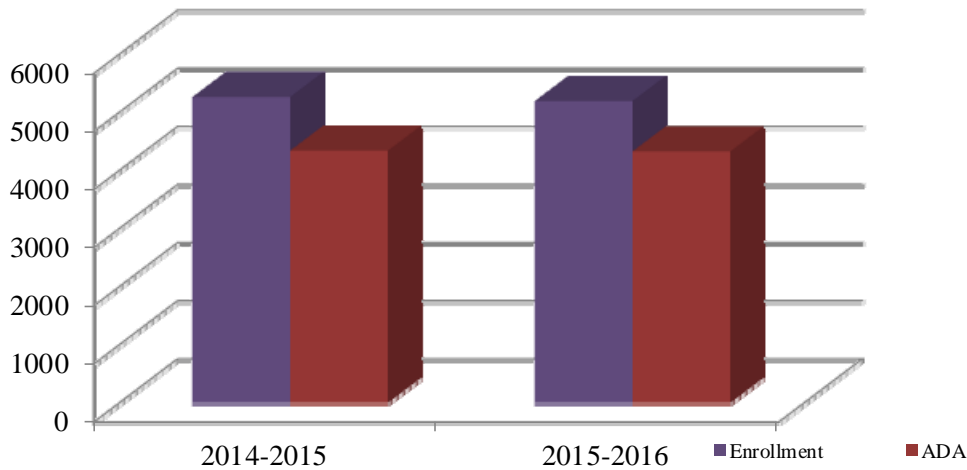
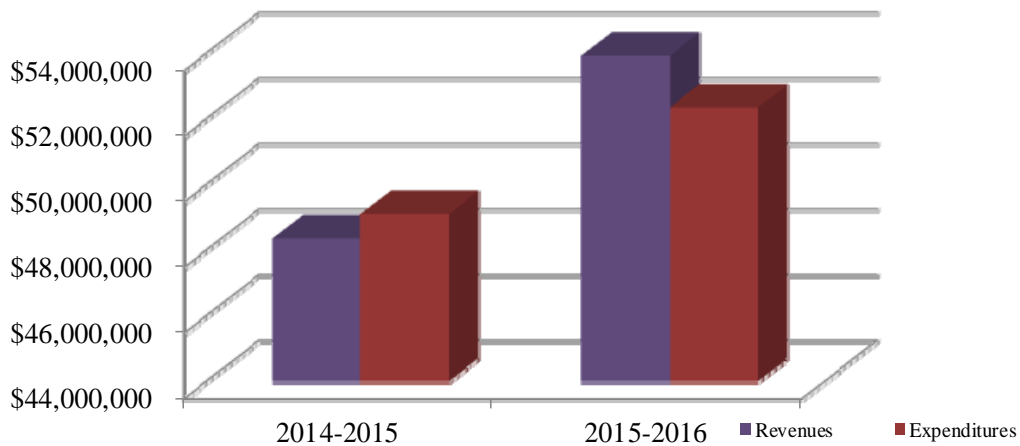


Chart A-2 Revenue/Expenditures All Governmental Funds



Total Local Control Funding Formula revenues in fiscal year 2015-2016 increased by approximately \$3.2 million dollars or 10.61 percent. Total revenue for the District increased approximately \$6.3 million, or 16 percent.

As exhibited below in Table A-1, with the exception of the significant transfer of categorical dollars to LCFF, revenue sources increased.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

COMPARISON OF ALL GOVERNMENTAL REVENUES

Table A-1

	Fiscal Year 2014-2015	Fiscal Year 2015-2016	Percent Increase (Decrease)
Local Control Funding Formula	\$ 36,526,053	\$ 40,321,768	10.39 %
Federal	2,575,745	2,515,369	(2.34)
Other State (excludes STRS)	3,635,958	6,866,495	88.85
Other Local	4,500,358	4,225,472	(6.11)
Total Revenues	\$ 47,238,114	\$ 53,929,104	14.16 %

COMPARISON OF ALL GOVERNMENTAL EXPENDITURES

Table A-2

	Fiscal Year 2014-2015	Fiscal Year 2015-2016	Percent Increase (Decrease)
Governmental Activities			
Instruction (excludes STRS)	\$ 29,509,203	\$ 31,869,978	8.00 %
Instruction Related Services:			
Supervision of instruction	1,426,236	1,767,669	23.94
Instructional library, media and technology	834,066	1,114,702	33.65
School site administration	2,874,812	3,293,739	14.57
Pupil Services:			
Home to school transportation	1,048,688	1,350,604	28.79
Food services	1,607,402	1,826,820	13.65
All other pupil services	1,503,257	1,681,615	11.86
General Administration:			
All other general administration	2,020,322	2,223,080	10.04
Plant Services	5,147,837	4,875,794	(5.28)
Ancillary Services	391,247	306,069	(21.77)
Community Services	859,890	931,992	8.39
Interest long term debt and other outgo	755,968	289,266	(61.74)
Total	\$47,978,928	\$51,531,328	7.40 %

The District's overall expenditures increased by approximately \$4.4 million in fiscal year 2015-2016. Most expenditures increased due to the negotiated settlement with bargaining groups. Home to School transportation purchased a bus and funded major maintenance of some buses. Pupil services increases are due to providing additional support to counseling and other general administrative costs increases are due to additional charter administrative expenditures in addition to negotiated settlements.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

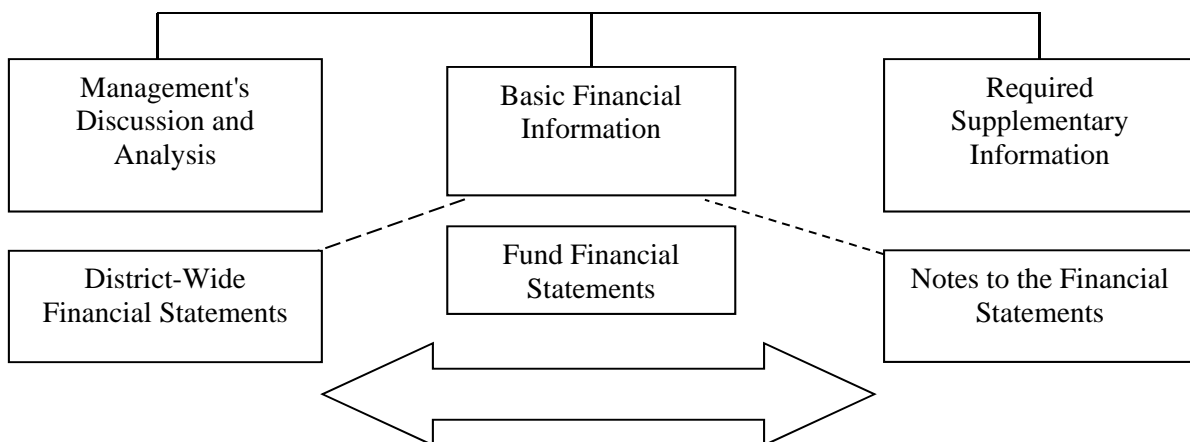
OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. This annual report is comprised of three components: 1) management discussion and analysis (this section), 2) the basic financial statements, and 3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
 - The *Governmental funds* statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

Figure A-1 Organization of Orcutt School District's Annual Financial Report



SUMMARY DETAIL

Figure A-2 summarizes the major features of the District's financial statements, including a portion of the

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

District's activities covered and the types of information contained.

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

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities
<i>Required Financial Statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
<i>Accounting Basis and Measurement Focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual Accounting and economic resources focus	Accrual accounting and economic resources focus

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Figure A-2 Major Features of the District-Wide and Fund Financial Statements (Continued)

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Type of Asset/Liability Information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain non-financial assets, though they can	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain non-financial assets, though they can
<i>Type of Inflow/Outflow Information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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

District-Wide Statements

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

The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net position are indicators of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the District-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Fund Financial Statements

The fund financial statements focus on the District's most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (i.e. repaying its long-term debt) or to show that it is properly using certain revenues (i.e. Federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds a statement that explains the relationships (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the retiree fund and student body funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the District-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* including the budgetary schedules for the major funds and the notes to the budgetary schedules.

Results of the state and federally mandated *Single Audit*, which includes auditor's opinions, schedules of State and Federal awards and schedules of findings and questioned costs, are also included in this section.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position (deficit) was \$(1,269,084) for the fiscal year ended June 30, 2016, and \$(3,543,113) at June 30, 2015. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use the 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	
	2016	2015 As Restated
Assets		
Current and other assets	\$ 25,458,881	\$ 20,585,754
Capital assets	30,108,332	30,321,706
Total Assets	55,567,213	50,907,460
Deferred Outflow of Resources		
Current year pension contribution	8,571,686	2,367,777
Liabilities		
Current liabilities	7,706,174	3,152,713
Long-term obligations	13,134,230	15,605,433
Net pension liability	37,373,811	30,128,878
Total Liabilities	58,214,215	48,887,024
Deferred Inflow of Resources		
Difference between projected and actual earnings on pension plan investment	7,193,768	7,931,326
Net Position		
Investment in capital assets	30,108,332	32,859,298
Restricted	6,654,081	6,807,838
Unrestricted (deficit)	(38,005,086)	(43,210,249)
Total Net Position (Deficit)	\$ (1,242,673)	\$ (3,543,113)

The \$(38,031,497) in unrestricted net deficit position of governmental activities represents the accumulated results of all past years' operations.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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 22. 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

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 627,667	\$ 612,270
Operating grants and contributions	7,027,726	5,520,074
General revenues:		
Federal and State aid not restricted	29,809,092	25,746,685
Property taxes	15,270,564	13,019,704
Other general revenues	2,443,185	4,102,734
Total Revenues	<u>55,178,234</u>	<u>49,001,467</u>
Expenses		
Instruction-related	39,394,113	36,445,852
Student support services	4,858,186	4,215,898
Administration	2,222,858	2,029,929
Plant services	4,874,179	2,671,000
Other	1,528,458	2,475,748
Total Expenses	<u>52,877,794</u>	<u>47,838,427</u>
Change in Net Position	<u>\$ 2,300,440</u>	<u>\$ 1,163,040</u>

Governmental Activities

As reported in the *Statement of Activities* on page 22, the cost of all of our governmental activities this year was \$52.9 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$15.3 million because the cost was paid by those who benefited from the programs \$(627,667) or by other governments and organizations who subsidized certain programs with grants and contributions \$(7.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$30 million in State funds, and with other revenues, like interest and general entitlements.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, school administration, pupil transportation services, maintenance and operations, and other outgo services. 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	
	2016	2015	2016	2015
Instruction	\$ 33,234,462	\$ 31,178,560	\$ 28,216,626	\$ 27,377,371
School administration	6,159,651	5,267,292	5,910,604	4,970,519
Student support services	4,858,186	4,215,898	2,685,117	2,072,301
Administration	2,222,858	2,029,929	2,107,026	2,027,023
Plant services	4,874,179	2,671,000	4,850,772	2,572,908
Other	1,528,458	2,475,748	1,452,256	2,317,073
Total	\$ 52,877,794	\$ 47,838,427	\$ 45,222,401	\$ 41,337,195

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial performance of the District as a whole is reflected in its governmental funds. As the District completed this fiscal year, its governmental funds reported a combined fund balance/net position of \$19,901,710. This is a slight increase over last year. The District's governmental activities had more expenditures than revenues in 2016. This is due to one-time reserves.

Beginning in fiscal year 2010-2011 GASB Statement No. 54 stated that Fund 20, Postemployment Benefits Fund is not substantially composed of restricted or committed revenue sources. For this year the fund will remain open for internal reporting purposes, however it will be reported in these financials as an extension of the General Fund, and accordingly combined with the General Fund for presentation in these audited financial statements.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

As the District completed this year, our governmental funds reported a combined fund balance of \$19.9 million, which is an increase of \$2.3 million from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	\$ 6,481,938	\$ 45,394,539	\$ 42,889,435	\$ 8,987,042
Charter School Fund	1,815,162	6,912,391	7,284,742	1,442,811
Deferred Maintenance Fund	2,903,756	598,552	170,996	3,331,312
Capital Facilities Fund	3,233,774	171,803	38,294	3,367,283
Non-Major Governmental Funds	3,174,461	3,197,370	3,598,569	2,773,262
Total	\$ 17,609,091	\$ 56,274,655	\$ 53,982,036	\$ 19,901,710

General Fund Budgetary Highlights

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

- Revenues – increases to account for LCFF and school donations.
- Salaries and benefits costs – salary and benefits are typically increased to account for approved negotiated agreements, changes in staffing in addition to health benefits.
- Non-Capital expenses - increased to re-budget carryover funds and revise operational cost estimates.

Education of Protection Act

The Education Protection Act (EPA) was created as a result of Proposition 30 which was passed by the electorate in November 2012. Revenues from taxes are deposited into the EPA account and the funds are released to K-14 school agencies. EPA funds did not provide additional funds to districts but instead are an offset from what otherwise would have been provided by the state of California. Proposition 30 did, however, help remove the threat of continued cuts to schools which was a welcome relief. The funds come with requirements that must be met. Each year local school agencies are required to discuss the plan to spend EPA funds in a public meeting of the governing board, and the funds cannot be used for administrative costs. At the end of each fiscal year each local school agency is required to post on its website a report of the amount of EPA funds received for the year along with an accounting of how the funds were spent.

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$30.1 million in a broad range of capital assets (net of depreciation), including land, buildings and improvements, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$213,374 or less than 1.0 percent, from last year (Table 5).

	Governmental Activities	
	2016	2015 As restated
Land and construction in progress	\$ 1,878,255	\$ 3,081,037
Buildings and improvements	25,142,817	24,631,788
Equipment	3,087,260	2,608,881
Total	\$ 30,108,332	\$ 30,321,706

Long-Term Obligations

At the end of this year, the District had \$11.8 million in bonds outstanding versus \$12.7 million last year, a decrease of 8.0 percent. Those bonds consisted of:

	Governmental Activities	
	2016	2015
General obligation bonds (financed with property taxes)	\$ 11,820,000	\$ 12,720,000
Compensated absence payable	278,536	216,072
OPEB payable	3,035,694	2,669,361
Total	\$ 15,134,230	\$ 15,605,433

Net Pension Liability (NPL)

At year-end, the District had a pension liability of \$37,373,811, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

	Governmental Activities	
	2016	2015
Net pension liability	\$ 37,373,811	\$ 30,128,878

ORCUTT UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

FACTORS BEARING ON THE DISTRICT'S FUTURE

In November 2012 Proposition 30 was approved by the electorate. This measure:

- Increased personal income tax on annual earnings over \$250,000 for seven years.
- Increased sales and use tax by ¼ cent for four years.
- Allocated temporary tax revenues for K-14 and other state funding uses.
- Raises approximately \$6 billion in revenues for most years, with smaller amounts in this last year of the tax increase.

For education in the State, this provided a relief from ongoing cuts and a means to at least maintain the same level of expenditures as in the previous year. It also allowed the state to buy down deferrals from previous years. As Proposition 30 is eliminated, the District will most likely experience diminished or flat funding in the future.

This is the fourth year of the Local Control Funding Formula (LCFF) which is a drastic change from the State revenue limit and categorical funding formula that has been in place for at least 40 years. The LCFF was designed to close the achievement gap and provides for a different distribution of dollars, not new funding. It only guarantees that the District will receive what would have been received in 2007-08 had we been fully funded. The new State formula funds base grants, plus supplemental and concentration grants based on the percentage of economically disadvantaged students, foster youth and English Learners. The formula will be phased in over an eight year period with the hope that the state economy will recover over this time to back fill tax increases that will expire. It remains questionable as to the reasonableness of the state actually being able to fund LCFF over a period of eight years. In reality, there are many competing agencies such as health and social services, higher education, and prisons that also compete for the same dollars. All agencies have suffered with severe budget cuts over the period of the "Great Recession" and are anxious to see some relief. Funding LCFF relies on a very robust economic recovery.

Under LCFF, the District receives only modest increases in comparison to neighboring districts in the Santa Maria Valley due to its demographic profile. This will make it increasingly more difficult to attract and retain high quality staff. The total impact on the finances of the District will continue to be extremely challenging as California continues to rank close to last in the nation in funding schools on a per student basis while still requiring high standards. Projected STRS and PERS increases over the next seven years at minimum without salary increases or additional staffing will be approximately \$2.5 million dollars. Adequacy of funding will be one of the most important issues for the District into the future.

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 Mr. Walter Con, Assistant Superintendent of Business Services, at Orcutt Union School District, 500 Dyer Street, Orcutt, California, 93455, or e-mail at wcon@orcutt-schools.net.

ORCUTT UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 22,608,489
Receivables	2,806,490
Prepaid expenditures	6,735
Stores inventories	37,167
Capital assets	
Land and construction in process	1,878,255
Other capital assets	50,020,810
Capital assets, net of accumulated depreciation	<u>(21,790,733)</u>
Total Capital Assets	<u>30,108,332</u>
Total Assets	<u>55,567,213</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>8,571,686</u>
LIABILITIES	
Accounts payable	5,434,121
Interest payable	155,843
Unearned revenue	89,799
Long-term obligations:	
Current portion of long-term obligations other than pensions	880,000
Noncurrent portion of long-term obligations other than pensions	<u>14,254,230</u>
Total Long-Term Obligations	<u>15,134,230</u>
Aggregate net pension liability	<u>37,373,811</u>
Total Liabilities	<u>58,187,804</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>7,193,768</u>
NET POSITION	
Net investment in capital assets	30,108,332
Restricted for:	
Debt service	1,051,746
Capital projects	3,367,283
Educational programs	834,028
Other activities	1,401,024
Unrestricted (deficit)	<u>(38,005,086)</u>
Total Net Position (Deficit)	<u>\$ (1,242,673)</u>

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

ORCUTT UNION SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 33,234,462	\$ -	\$ 5,017,836	\$ (28,216,626)
Instruction-related activities:				
Supervision of instruction	1,751,210	-	215,775	(1,535,435)
Instructional library, media, and technology	1,114,702	-	10,414	(1,104,288)
School site administration	3,293,739	-	22,858	(3,270,881)
Pupil services:				
Home-to-school transportation	1,350,604	-	101,351	(1,249,253)
Food services	1,826,820	604,248	1,111,249	(111,323)
All other pupil services	1,680,762	-	356,221	(1,324,541)
Administration:				
All other administration	2,222,858	22,425	93,407	(2,107,026)
Plant services	4,874,179	994	22,413	(4,850,772)
Ancillary services	306,069	-	73,560	(232,509)
Community services	933,123	-	41	(933,082)
Interest on long-term obligations	289,266	-	-	(289,266)
Other outgo	-	-	2,601	2,601
Total Governmental Activities	\$ 52,877,794	\$ 627,667	\$ 7,027,726	(45,222,401)
General revenues and subventions:				
Property taxes, levied for general purposes				14,149,732
Property taxes, levied for debt service				1,120,832
Federal and State aid not restricted to specific purpose				29,809,092
Interest and investment earnings				100,564
Miscellaneous				2,342,621
				<u>47,522,841</u>
				Subtotal, General Revenues
				2,300,440
				Change in Net Position
				Net Position - Beginning, as restated
				<u>(3,543,113)</u>
				Net Position - Ending (Deficit)
				<u>\$ (1,242,673)</u>

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

ORCUTT UNION SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	Charter School Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 9,709,976	\$ 2,500,324	\$ 2,759,621
Receivables	2,628,322	86,610	4,055
Due from other funds	1,322,209	444,370	586,678
Prepaid expenditures	1,275	5,460	-
Stores inventories	15,190	-	-
Total Assets	\$ 13,676,972	\$ 3,036,764	\$ 3,350,354
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,531,425	\$ 323,002	\$ 19,042
Due to other funds	1,094,821	1,256,836	-
Unearned revenue	63,684	14,115	-
Total Liabilities	4,689,930	1,593,953	19,042
Fund Balances:			
Nonspendable	31,965	5,460	-
Restricted	615,056	218,972	-
Committed	1,950,544	-	3,331,312
Assigned	5,095,555	1,218,379	-
Unassigned	1,293,922	-	-
Total Fund Balances	8,987,042	1,442,811	3,331,312
Total Liabilities and Fund Balances	\$ 13,676,972	\$ 3,036,764	\$ 3,350,354

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

Capital Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 3,366,703	\$ 2,799,116	\$ 21,135,740
4,909	61,040	2,784,936
-	77,677	2,430,934
-	-	6,735
-	21,977	37,167
<u>\$ 3,371,612</u>	<u>\$ 2,959,810</u>	<u>\$ 26,395,512</u>

\$ -	\$ 99,600	\$ 3,973,069
4,329	74,948	2,430,934
-	12,000	89,799
<u>4,329</u>	<u>186,548</u>	<u>6,493,802</u>

-	21,977	59,402
3,367,283	1,401,024	5,602,335
-	1,051,746	6,333,602
-	298,515	6,612,449
-	-	1,293,922
<u>3,367,283</u>	<u>2,773,262</u>	<u>19,901,710</u>

<u>\$ 3,371,612</u>	<u>\$ 2,959,810</u>	<u>\$ 26,395,512</u>
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ORCUTT UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2016

Total Fund Balance - Governmental Funds **\$ 19,901,710**

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 51,899,065	
Accumulated depreciation is	<u>(21,790,733)</u>	
Net Capital Assets		30,108,332

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. 2,899,739

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (155,843)

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. 33,251

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 1,733,128

The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (2,717,001)

The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (109,611)

The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (428,337)

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

ORCUTT UNION SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, Continued
JUNE 30, 2016**

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (37,373,811)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds payable	\$ 11,820,000	
Compensated absences (vacations)	278,536	
Net OPEB asset	<u>3,035,694</u>	
Total Long-Term Obligations		<u>(15,134,230)</u>
Total Net Position (Deficit) - Governmental Activities		<u>\$ (1,242,673)</u>

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

ORCUTT UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Charter School Fund	Deferred Maintenance Fund
REVENUES			
Local Control Funding Formula	\$ 34,088,380	\$ 5,940,049	\$ 293,339
Federal sources	1,408,474	2,911	-
Other State sources	7,359,243	610,863	-
Other local sources	1,933,669	358,568	11,874
Total Revenues	44,789,766	6,912,391	305,213
EXPENDITURES			
Current			
Instruction	29,277,861	3,527,590	-
Instruction-related activities:			
Supervision of instruction	1,406,590	125,713	-
Instructional library, media and technology	999,443	110,963	-
School site administration	2,713,383	569,979	-
Pupil services:			
Home-to-school transportation	1,139,248	205,740	-
Food services	-	-	-
All other pupil services	1,367,150	273,575	-
Administration:			
All other administration	913,964	1,219,365	-
Plant services	3,664,458	414,949	133,091
Facility acquisition and construction	39,996	-	37,905
Ancillary services	83,346	222,520	-
Community services	929,999	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	42,535,438	6,670,394	170,996
Excess (Deficiency) of			
Revenues Over Expenditures	2,254,328	241,997	134,217
Other Financing Sources (Uses)			
Transfers in	604,773	-	293,339
Transfers out	(353,997)	(614,348)	-
Net Financing Sources (Uses)	250,776	(614,348)	293,339
NET CHANGE IN FUND BALANCES	2,505,104	(372,351)	427,556
Fund Balance - Beginning	6,481,938	1,815,162	2,903,756
Fund Balance - Ending	\$ 8,987,042	\$ 1,442,811	\$ 3,331,312

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

Capital Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 40,321,768
-	1,103,984	2,515,369
-	269,266	8,239,372
171,803	1,749,558	4,225,472
171,803	3,122,808	55,301,981
-	164,916	32,970,367
-	4,694	1,536,997
-	-	1,110,406
-	-	3,283,362
-	-	1,344,988
-	1,824,088	1,824,088
-	-	1,640,725
-	72,568	2,205,897
-	2,936	4,215,434
33,965	301,060	412,926
-	-	305,866
-	41	930,040
-	900,000	900,000
-	328,266	328,266
33,965	3,598,569	53,009,362
137,838	(475,761)	2,292,619
-	74,562	972,674
(4,329)	-	(972,674)
(4,329)	74,562	-
133,509	(401,199)	2,292,619
3,233,774	3,174,461	17,609,091
\$ 3,367,283	\$ 2,773,262	\$ 19,901,710

ORCUTT UNION 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, 2016

Total Net Change in Fund Balances - Governmental Funds **\$ 2,292,619**
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 Outlay	\$ 1,339,499	
Depreciation expense	<u>(1,552,873)</u>	
Net Expense Adjustment		(213,374)

In the Statement of Activities, certain operating expenses, such as 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). Vacation used was less than the amounts earned by \$62,464. (62,464)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (292,600)

In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This fiscal year, the difference between OPEB costs and actual employers contributions was: (366,333)

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

General obligation bonds	900,000
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Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 39,005

An internal service fund is used by the District's management to charge the costs of the service insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities. 3,587

Change in Net Position of Governmental Activities **\$ 2,300,440**

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

ORCUTT UNION SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 1,472,749
Receivables	21,554
Total Current Assets	<u>\$ 1,494,303</u>
LIABILITIES	
Current Liabilities	
Accounts payable	<u>\$ 1,461,052</u>
Net Position	
Restricted	<u>\$ 33,251</u>

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

ORCUTT UNION SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	<u>\$ 10,871</u>
NONOPERATING REVENUES	
Interest income	<u> 3,587</u>
Change in Net Position	14,458
Total Net Position - Beginning	<u>18,793</u>
Total Net Position - Ending	<u><u>\$ 33,251</u></u>

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

ORCUTT UNION SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 357
Cash paid for employee benefits	5,765,432
Cash payments to other suppliers of goods or services	<u>(5,164,057)</u>
Net Cash Provided By Operating Activities	<u>601,732</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>3,587</u>
Net Cash Provided by Investing Activities	<u>3,587</u>
 Net Increase in Cash and Cash Equivalents	605,319
Cash and Cash Equivalents - Beginning	<u>867,430</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 1,472,749</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Changes in assets and liabilities:	
Receivables	\$ (20,723)
Accrued liabilities	<u>611,584</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 601,732</u></u>

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

ORCUTT UNION SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 36,820</u>
LIABILITIES	
Due to student groups	<u>\$ 36,820</u>

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Orcutt Union School District (the District) was established in 1884 under the laws of the State of California. The District operates under a locally elected five member Board form of government and provides educational services to grades K -12 as mandated by the State and/or Federal agencies. The District operates eight elementary schools, grade kindergarten through eight, and one charter school, grade kindergarten to twelve.

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

Other Related Entities

Charter School The District has an approved Charter for Orcutt Academy Charter Schools pursuant to *Education Code* Section 47605. The Orcutt Academy Charter School is operated by the District, and its financial activities are presented in the Charter School special revenue fund.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

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As a result, the General Fund reflects an increase in fund balance, assets, revenues, and expenditures of \$2,475,600, \$3,900,362, \$6,259,702, and \$3,352,684, respectively.

Charter Schools Fund The Charter Schools 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.

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.

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).

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.

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).

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.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

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

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).

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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.

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insurance fund that is used to provide medical benefits to its employees.

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

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

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

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2016, 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

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 during the period benefited.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when used.

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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 \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 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 and business-type activities columns 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.

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Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability.

Pensions

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

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Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted 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 report \$6,654,081 of restricted net position.

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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 cost of reimbursement from employees. 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

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

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 and business-type activities columns of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type 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.

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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 Santa Barbara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

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In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

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New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

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

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In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

ORCUTT UNION SCHOOL DISTRICT

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The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$22,608,489
Fiduciary funds	<u>37,473</u>
Total Deposits and Investments	<u>\$22,645,962</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	\$ 96,267
Cash in revolving	15,500
Investments	<u>22,534,195</u>
Total Deposits and Investments	<u>\$22,645,962</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.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

General Authorizations

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

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

Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Weighted Average Maturity in Days
Santa Barbara County Investment Pool	\$ 22,595,938	419

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>
Santa Barbara County Investment Pool	<u>\$ 22,595,938</u>

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

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Charter School Fund	Deferred Maintenance Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Federal Government							
Categorical aid	\$ 355,226	\$ -	\$ -	\$ -	\$ 35,713	\$ -	\$ 390,939
State Government							
Categorical aid	1,709,799	-	-	-	2,761	-	1,712,560
Lottery	498,650	81,683	-	-	-	-	580,333
Local Government							
Interest	14,814	4,927	4,055	4,909	3,847	1,461	34,013
Other Local Sources	49,833	-	-	-	18,719	20,093	88,645
Total	<u>\$ 2,628,322</u>	<u>\$ 86,610</u>	<u>\$ 4,055</u>	<u>\$ 4,909</u>	<u>\$ 61,040</u>	<u>\$ 21,554</u>	<u>\$ 2,806,490</u>

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,878,255	\$ -	\$ -	\$ 1,878,255
Total Capital Assets Not Being Depreciated	<u>1,878,255</u>	<u>-</u>	<u>-</u>	<u>1,878,255</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	42,487,539	76,996	5,366	42,559,169
Furniture and Equipment	6,336,511	1,262,503	137,373	7,461,641
Total Capital Assets Being Depreciated	<u>48,824,050</u>	<u>1,339,499</u>	<u>142,739</u>	<u>50,020,810</u>
Total Capital Assets	<u>50,702,305</u>	<u>1,339,499</u>	<u>142,739</u>	<u>51,899,065</u>
Less Accumulated Depreciation:				
Buildings and Improvements	16,433,818	987,900	5,366	17,416,352
Furniture and Equipment	3,946,781	564,973	137,373	4,374,381
Total Accumulated Depreciation Governmental Activities	<u>20,380,599</u>	<u>1,552,873</u>	<u>142,739</u>	<u>21,790,733</u>
Capital Assets, Net	<u>\$ 30,321,706</u>	<u>\$ (213,374)</u>	<u>\$ -</u>	<u>\$ 30,108,332</u>

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

Governmental Activities	
Plant maintenance	<u>\$ 1,552,873</u>

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From				Total
	General Fund	Charter Fund	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,242,932	\$ 4,329	\$ 74,948	\$ 1,322,209
Charter Fund	444,370	-	-	-	444,370
Deferred Maintenance Fund	586,678	-	-	-	586,678
Non-Major Governmental Funds	63,773	13,904	-	-	77,677
Total	\$ 1,094,821	\$ 1,256,836	\$ 4,329	\$ 74,948	\$ 2,430,934

The balance of \$444,370 is due to the Charter School Fund from the General Fund for charter in lieu of property taxes.

The balance of \$586,678 is due to the Deferred Maintenance Fund from the General Fund for deferred maintenance match.

A balance of \$594,885 is due to the General Fund from the Charter School Fund for charter school fees.

A balance of \$570,940 is due to the General Fund from the Charter School Fund for one-time two percent off schedule district-wide employee compensation.

The balance of \$63,773 is due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the General Fund for charter school relocation costs.

A balance of \$47,603 is due to the General Fund from the Charter School Fund for transportation costs.

A balance of \$6,291 is due to the General Fund from the Child Development Non-Major Governmental Fund for indirect costs.

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

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Charter School Fund	Capital Facilities Funds	
General Fund	\$ -	\$ 600,444	\$ 4,329	\$ 604,773
Deferred Maintenance Fund	293,339	-	-	293,339
Non-Major Funds	60,658	13,904	-	74,562
Total	<u>\$ 353,997</u>	<u>\$ 614,348</u>	<u>\$ 4,329</u>	<u>\$ 972,674</u>

The General Fund transferred to the Special Reserve Outlay Non-Major Governmental Fund for Orcutt Academy charter school relocation costs. \$ 60,658

The General Fund transferred to the Deferred Maintenance Fund for 2015-2016 deferred maintenance contribution. 293,339

The Charter School Fund transferred to the General Fund to cover two percent one-time off schedule district-wide employee compensation. 600,444

The Capital Facilities Fund transferred to the General Fund for developer administrative fees. 4,329

The Charter School Fund transferred to the Cafeteria Non-Major Governmental Fund to cover two percent one-time off schedule district-wide employee compensation. 12,412

The Charter School Fund transferred to the Child Development Non-Major Governmental Fund to cover two percent one-time off schedule district-wide employee compensation. 1,492

Total \$ 972,674

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Charter Schools Fund	Deferred Maintenance Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 2,849,888	\$ 228,381	\$ 9,039	\$ 99,212	\$ 482,448	\$3,668,968
State apportionment	601,526	85,131	-	-	-	686,657
Salaries and benefits	79,847	9,483	10,003	388	-	99,721
Other	164	7	-	-	978,604	978,775
Total	<u>\$ 3,531,425</u>	<u>\$ 323,002</u>	<u>\$ 19,042</u>	<u>\$ 99,600</u>	<u>\$ 1,461,052</u>	<u>\$5,434,121</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	General Fund	Charter School Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 35,456	\$ -	\$ -	\$ 35,456
State categorical aid	28,228	14,115	12,000	54,343
Total	<u>\$ 63,684</u>	<u>\$ 14,115</u>	<u>\$ 12,000</u>	<u>\$ 89,799</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 12,720,000	\$ -	\$ 900,000	\$ 11,820,000	\$ 690,000
Accumulated vacation, net	216,072	62,464	-	278,536	-
Other postemployment benefits	2,669,361	641,042	274,709	3,035,694	-
	<u>\$ 15,605,433</u>	<u>\$ 703,506</u>	<u>\$ 1,174,709</u>	<u>\$ 15,134,230</u>	<u>\$ 690,000</u>

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Bonded Debt

- Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund.
- Payments for Accumulated Vacation are typically liquidated in the fund in which the employee worked.
- Payments for OPEB obligation are made from the General Fund and the fund in which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2015	Issued	Redeemed	Outstanding June 30, 2016
2005	2016	2.5%-4.5%	\$9,710,000	\$ 350,000	\$ -	\$ 350,000	\$ -
2012	2031	2.0%-4.0%	4,150,000	3,595,000	-	180,000	3,415,000
2012	2029	2.0%-3.5%	1,525,000	1,360,000	-	80,000	1,280,000
2015	2031	3.25%	7,415,000	7,415,000	-	290,000	7,125,000
				<u>\$12,720,000</u>	<u>\$ -</u>	<u>\$ 900,000</u>	<u>\$ 11,820,000</u>

2012 General Obligations Bond Series A

The bonds mature through 2031 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2017	\$ 190,000	\$ 106,688	\$ 296,688
2018	195,000	100,988	295,988
2019	200,000	97,575	297,575
2020	200,000	93,575	293,575
2021	210,000	89,075	299,075
2022-2026	1,115,000	356,256	1,471,256
2027-2031	1,305,000	156,475	1,461,475
Total	<u>\$ 3,415,000</u>	<u>\$ 1,000,632</u>	<u>\$ 4,415,632</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

2012 General Obligations Bond Series B

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 85,000	\$ 35,319	\$ 120,319
2018	85,000	32,769	117,769
2019	85,000	30,750	115,750
2020	90,000	29,106	119,106
2021	100,000	27,081	127,081
2022-2026	505,000	95,513	600,513
2027-2029	330,000	17,609	347,609
Total	<u>\$ 1,280,000</u>	<u>\$ 268,147</u>	<u>\$ 1,548,147</u>

2015 Refunding General Obligations Bond

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 415,000	\$ 228,231	\$ 643,231
2018	425,000	214,663	639,663
2019	440,000	200,769	640,769
2020	445,000	186,387	631,387
2021	455,000	171,844	626,844
2022-2026	2,570,000	621,969	3,191,969
2027-2031	2,375,000	178,425	2,553,425
Total	<u>\$ 7,125,000</u>	<u>\$ 1,802,288</u>	<u>\$ 8,927,288</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$278,536.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$656,154, and contributions made by the District during the year were \$274,709. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$120,121 and \$(135,233), respectively, which resulted in an increase to the net OPEB obligation of \$366,333. As of June 30, 2016, the net OPEB obligation was \$3,035,694. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - FUND BALANCES

Fund balances composed of the following elements:

	General Fund	Charter School Fund	Deferred Maintenance Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 15,500	\$ -	\$ -	\$ -	\$ -	\$ 15,500
Stores inventories	15,190	-	-	-	21,977	37,167
Prepaid expenditures	1,275	5,460	-	-	-	6,735
Total						
Nonspendable	31,965	5,460	-	-	21,977	59,402
Restricted						
Legally restricted programs	615,056	218,972	-	3,367,283	1,401,024	5,602,335
Committed						
Deferred maintenance program	-	-	-	-	-	-
Other committed	1,950,544	-	3,331,312	-	1,051,746	6,333,602
Total Committed	1,950,544	-	3,331,312	-	1,051,746	6,333,602
Assigned						
Other Assignments	-	1,218,379	-	-	298,515	1,516,894
Compensated Absences	20,000	-	-	-	-	20,000
Strategic Plan	1,500,000	-	-	-	-	1,500,000
Technology for Students	837,000	-	-	-	-	837,000
Textbook Adoptions	1,100,000	-	-	-	-	1,100,000
Future Reductions	1,638,555	-	-	-	-	1,638,555
Total Assigned	5,095,555	1,218,379	-	-	298,515	6,612,449
Unassigned						
Remaining unassigned	1,264,418	29,504	-	-	-	1,293,922
Total Unassigned	1,264,418	29,504	-	-	-	1,293,922
Total	\$ 8,957,538	\$ 1,472,315	\$ 3,331,312	\$ 3,367,283	\$ 2,773,262	\$ 13,309,261

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Plan Description

The District provides post-retirement health benefits to all retirees with ten years of service who retire from the District and have reached the minimum age of 55. The duration of the benefits are five years, but not beyond age 65. There were 325 active members and 35 retirees at June 30, 2016.

Funding Policy

The District pays 100 percent of the health benefits for retirees and 80 percent of the coverage for two-party or family coverage for certified retirees and for management/confidential retirees hired after July 1, 2005. The District pays 100 percent of two-party or family coverage for classified retirees and 100 percent for management/confidential retirees hired prior to July 1, 2005. During fiscal year 2015-2016, expenditures of \$248,298 were recognized for post-retirement health insurance contributions on a pay as you go basis.

The District is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the 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 liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan (including administrative costs), and changes in the District's net OPEB obligation:

Annual required contribution	\$ 656,154
Interest on net OPEB obligation	120,121
Adjustment to annual required contribution	<u>(135,233)</u>
Annual OPEB cost (expense)	641,042
Contributions made	<u>(274,709)</u>
Increase in net OPEB obligation	366,333
Net OPEB obligation, beginning of year	<u>2,669,361</u>
Net OPEB obligation, end of year	<u>\$ 3,035,694</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 665,758	\$ 272,593	41%	\$ 2,354,836
2015	\$ 562,823	\$ 248,298	44%	\$ 2,669,361
2016	\$ 641,042	\$ 274,709	43%	\$ 3,035,694

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c]
January 11, 2013	\$ -	\$ 5,717,998	\$ 5,717,998	\$ -	\$ 27,984,279	20%

Actuarial Methods and Assumptions

In the May 2, 2015, actuarial valuation, the level percentage of payroll method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 4.0 percent. The actuarial value of plan assets was not calculated in this, for the first actuarial valuation, as there are no assets to value. The plan unfunded actuarial accrued liability is being amortized over a thirty year amortization period.

The District did not pre-fund retiree healthcare costs nor establish an irrevocable trust for retiree healthcare costs. The District did establish a separate cash account and reserve of fund balance, in the amount of \$1,950,544. However, because the assets are not in an irrevocable trust, the \$1,950,544 cannot be used to reduce the actuarial accrued liability shown above. The decision not to use an irrevocable trust was made because of the current national and State economic issues and the possibility that the funds may be required to provide current services.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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 fiscal year ending June 30, 2016, the District contracted with SISCII for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2016, the District participated in the SIPE, an insurance purchasing pool. The intent of the SIPE is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SIPE. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the name of SIPE. Each participant pays its workers' compensation premium based on its individual rate.

Employee Medical Benefits

The District has contracted with the SISCI to provide employee health benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective</u>		<u>Collective Pension Expense</u>
		<u>Deferred Outflows of Resources</u>	<u>Collective Deferred Inflow of Resources</u>	
CalSTRS	\$ 30,402,486	\$ 6,254,742	\$ 5,381,760	\$ 2,668,462
CalPERS	6,971,325	2,316,944	1,812,008	635,037
Total	<u>\$ 37,373,811</u>	<u>\$ 8,571,686</u>	<u>\$ 7,193,768</u>	<u>\$ 3,303,499</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$2,235,037.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 30,402,486
State's proportionate share of the net pension liability associated with the District	<u>16,079,564</u>
Total	<u><u>\$ 46,482,050</u></u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0452 percent and 0.0426 percent, resulting in a net increase in the proportionate share of 0.0026 percent.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$2,668,462. In addition, the District recognized pension expense and revenue of \$1,245,543 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,235,037	\$ -
Net change in proportionate share of net pension liability	1,624,274	-
Difference between projected and actual earnings on pension plan investments	2,395,431	4,873,727
Differences between expected and actual experience in the measurement of the total pension liability	-	508,033
Total	<u>\$ 6,254,742</u>	<u>\$ 5,381,760</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,025,718)
2018	(1,025,718)
2019	(1,025,718)
2020	598,859
Total	<u>\$ (2,478,295)</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 186,040
2018	186,040
2019	186,040
2020	186,040
2021	186,040
Thereafter	186,041
Total	<u>\$ 1,116,241</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 45,905,388
Current discount rate (7.60%)	\$ 30,402,486
1% increase (8.60%)	\$ 17,518,324

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$664,702.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$6,971,325. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0473 percent and 0.0463 percent, resulting in a net increase in the proportionate share of 0.001 percent.

ORCUTT UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

For the year ended June 30, 2016, the District recognized pension expense of \$635,037. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 664,702	\$ -
Net change in proportionate share of net pension liability	108,854	-
Difference between projected and actual earnings on pension plan investments	1,144,966	1,383,670
Differences between expected and actual experience in the measurement of the total pension liability	398,422	428,338
Changes of assumptions	-	-
Total	<u>\$ 2,316,944</u>	<u>\$ 1,812,008</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (174,982)
2018	(174,982)
2019	(174,982)
2020	286,242
Total	<u>\$ (238,704)</u>

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 27,220
2018	27,220
2019	24,502
Total	<u>\$ 78,942</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 11,346,413
Current discount rate (7.65%)	\$ 6,971,325
1% increase (8.65%)	\$ 3,333,148

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$1,372,877 (7.12589 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, 2016.

Litigation

The District is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The Orcutt Union School District participates in three joint ventures under joint powers agreements (JPA's); the Self-Insurance Program for Employees, the Self-Insured Schools of California II, and the Self-Insured Schools of California III. The relationship between the Orcutt Union School District and the JPA's are such that none of the JPAs are a component unit of the Orcutt Union School District for financial reporting purposes.

The JPAs are independently accountable for their fiscal matters. The Insurance groups maintain their own accounting records. Budgets are not subject to any approval other than of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

ORCUTT UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Self-Insurance Program for Employees (SIPE)

SIPE was established to provide the services and other items necessary and appropriate for the development, operation, and maintenance of a self-Insurance system for workers' compensation claims against the public educational agencies who are members thereof. The participants consist of the Office of the County Superintendent of Schools, school districts, and a community college. Each participant may appoint one representative to the governing board, the governing board is responsible for establishing premium rates and making budgeting decisions.

Self-Insured School of California II (SISC II)

SISC II arranges for and provides property and liability insurance for its member school districts. The Orcutt Union School District pays a premium commensurate with the level of coverage requested.

Self-Insured School of California III (SISC III)

SIPE III arranges for and provides health and welfare insurance for its member school districts. The Orcutt Union School District pays a premium commensurate with the level of health and welfare insurance provided.

The District made payments of \$686,077, \$170,749, and \$4,490,596, respectively to SIPE, SISC II, and SISC III, respectively.

NOTE 16 - RESTATEMENT OF CAPITAL ASSETS

The District had a correction of work in progress from prior years fixed assets. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ (1,005,521)
Decrease in Capital Assets	(1,510,792)
Increase Accumulated Depreciation	<u>(1,026,800)</u>
Net Position - Beginning as Restated	<u>\$ (3,543,113)</u>

REQUIRED SUPPLEMENTARY INFORMATION

ORCUTT UNION SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Local Control Funding Formula	\$ 34,017,154	\$ 33,995,683	\$ 34,088,380	\$ 92,697
Federal sources	1,358,508	1,504,001	1,408,474	(95,527)
Other State sources	5,588,975	6,954,203	7,359,243	405,040
Other local sources	1,116,425	1,668,621	1,933,669	265,048
Total Revenues ¹	<u>42,081,062</u>	<u>44,122,508</u>	<u>44,789,766</u>	<u>667,258</u>
EXPENDITURES				
Current				
Certificated salaries	18,952,909	19,760,756	19,583,791	176,965
Classified salaries	6,030,818	6,586,397	6,609,180	(22,783)
Employee benefits	7,836,789	9,459,174	9,456,775	2,399
Books and supplies	3,259,121	3,938,762	2,561,485	1,377,277
Services and operating expenditures	3,110,568	3,821,361	3,540,635	280,726
Capital outlay	263,570	1,150,989	856,143	294,846
Other outgo	(67,614)	(68,294)	(72,571)	4,277
Total Expenditures ¹	<u>39,386,161</u>	<u>44,649,145</u>	<u>42,535,438</u>	<u>2,113,707</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,694,901</u>	<u>(526,637)</u>	<u>2,254,328</u>	<u>2,780,965</u>
Other Financing Sources (Uses)				
Transfers in	18,000	576,940	604,773	27,833
Transfers out	(555,664)	(555,664)	(353,997)	201,667
Net Financing Sources (Uses)	<u>(537,664)</u>	<u>21,276</u>	<u>250,776</u>	<u>229,500</u>
NET CHANGE IN FUND BALANCE	<u>2,157,237</u>	<u>(505,361)</u>	<u>2,505,104</u>	<u>3,010,465</u>
Fund Balance - Beginning	<u>6,481,938</u>	<u>6,481,938</u>	<u>6,481,938</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 8,639,175</u>	<u>\$ 5,976,577</u>	<u>\$ 8,987,042</u>	<u>\$ 3,010,465</u>

¹ On behalf payments of \$1,372,877 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information

ORCUTT UNION SCHOOL DISTRICT

**CHARTER SCHOOL SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u> (GAAP Basis)	<u>Variances -</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u>
				<u>(Negative)</u> <u>Final</u> <u>to Actual</u>
REVENUES				
Local Control Funding Formula	\$ 6,018,947	\$ 5,931,210	\$ 5,940,049	\$ 8,839
Federal sources	3,145	3,145	2,911	(234)
Other State sources	579,498	826,000	610,863	(215,137)
Other local sources	18,100	259,598	358,568	98,970
Total Revenues	<u>6,619,690</u>	<u>7,019,953</u>	<u>6,912,391</u>	<u>(107,562)</u>
EXPENDITURES				
Current				
Certificated salaries	2,681,278	2,836,614	2,787,216	(49,398)
Classified salaries	464,970	557,229	512,520	(44,709)
Employee benefits	938,959	1,252,593	1,065,927	(186,666)
Books and supplies	268,939	493,385	332,146	(161,239)
Services and operating expenditures	1,481,030	1,934,273	1,793,161	(141,112)
Capital outlay	10,000	73,337	179,424	106,087
Total Expenditures	<u>5,845,176</u>	<u>7,147,431</u>	<u>6,670,394</u>	<u>(477,037)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>774,514</u>	<u>(127,478)</u>	<u>241,997</u>	<u>369,475</u>
Other Financing Sources (Uses)				
Transfers in	-	-	(29,504)	(29,504)
Transfers out	(22,401)	(607,245)	(584,844)	22,401
Net Financing Sources (Uses)	<u>(22,401)</u>	<u>(607,245)</u>	<u>(614,348)</u>	<u>(7,103)</u>
NET CHANGE IN FUND BALANCE	<u>752,113</u>	<u>(734,723)</u>	<u>(372,351)</u>	<u>362,372</u>
Fund Balance - Beginning	<u>1,815,162</u>	<u>1,815,162</u>	<u>1,815,162</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,567,275</u>	<u>\$ 1,080,439</u>	<u>\$ 1,442,811</u>	<u>\$ 362,372</u>

See accompanying note to required supplementary information

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
December 1, 2008	\$ -	\$ 5,051,407	\$ 5,051,407	\$ -	\$ 21,805,809	23%
December 1, 2010	-	5,585,842	5,585,842	-	22,530,265	25%
January 1, 2013	-	5,717,998	5,717,998	-	27,984,279	20%

See accompanying note to required supplementary information

ORCUTT UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability (asset)	<u>0.0452%</u>	<u>0.0426%</u>
District's proportionate share of the net pension liability (asset)	\$ 30,402,486	\$ 24,868,700
State's proportionate share of the net pension liability (asset) associated with the District	<u>16,079,564</u>	<u>15,016,795</u>
Total	<u>\$ 46,482,050</u>	<u>\$ 39,885,495</u>
District's covered - employee payroll	<u>\$ 20,005,788</u>	<u>\$ 23,953,830</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>151.97%</u>	<u>103.82%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
 CalPERS		
District's proportion of the net pension liability (asset)	<u>0.0473%</u>	<u>0.0463%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 6,971,325</u>	<u>\$ 5,260,178</u>
District's covered - employee payroll	<u>\$ 5,023,476</u>	<u>\$ 5,942,471</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>138.77%</u>	<u>88.52%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 2,235,037	\$ 1,776,514
Contributions in relation to the contractually required contribution	<u>(2,235,037)</u>	<u>(1,776,514)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 20,829,795</u>	<u>\$ 20,005,788</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 664,702	\$ 591,263
Contributions in relation to the contractually required contribution	<u>(664,702)</u>	<u>(591,263)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 5,609,300</u>	<u>\$ 5,023,476</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information

ORCUTT UNION SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

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

Schedule of District Contributions

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

Changes in Benefit Terms

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

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	\$ 93,290
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	46,644
Title I Part A, Basic Grants Low-Income and Neglected	84.010	14329	224,245
Title I Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	2,911
Passed through Santa Barbara County Special Education Local Plan Area:			
Individuals With Disabilities Act (IDEA)			
Special Education - IDEA Cluster			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	817,605
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	37,914
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	94,552
Total Special Education IDEA Cluster			<u>950,071</u>
Total U.S. Department of Education			<u>1,317,161</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	198,960
National School Lunch Program	10.555	13524	865,342
Food Distribution	10.555	13524	39,682
Total U.S. Department of Agriculture			<u>1,103,984</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	21,459
Total U.S. Department of Health and Human			<u>21,459</u>
Total Expenditures of Federal Awards			<u>\$ 2,442,604</u>

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The Orcutt Union School District was established in 1884 and consists of an area comprising approximately 69.69 square miles. The District operates eight elementary schools, with grades kindergarten through eight, and one charter school, grades kindergarten through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Robert Hatch	Member	2018
Mrs. Liz Phillips	President	2016
Mr. Rob Buchanan	Clerk/Secretary	2018
Dr. James Peterson	Member	2018
Ms. Jan Zilli	Member	2016

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Dr Deborah Blow	Superintendent
Mr. Walter Con	Assistant Superintendent, Business Services
Mr. Don Nicholson	Assistant Superintendent, Human Resources
Ms. Holly Edds, Ed.D	Assistant Superintendent, Educational Services
Mr. Kirby Fell	Chief Technology Officer

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report	Annual Report
Orcutt Union School District		
Regular ADA		
Transitional kindergarten through third	1,785.47	1,783.75
Fourth through sixth	1,540.87	1,537.89
Seventh and eighth	1,005.83	1,002.94
Total Regular ADA	<u>4,332.17</u>	<u>4,324.58</u>
Extended Year Special Education		
Transitional kindergarten through third	2.38	2.38
Fourth through sixth	1.87	1.87
Seventh and eighth	0.59	0.59
Total Extended Year Special Education	<u>4.84</u>	<u>4.84</u>
Total ADA	<u>4,337.01</u>	<u>4,329.42</u>
Orcutt Academy Charter High School		
Regular ADA		
Transitional kindergarten through third	73.28	72.62
Fourth through sixth	43.63	44.54
Seventh and eighth	31.93	33.26
Ninth through twelfth	567.46	565.13
Total Regular ADA	<u>716.30</u>	<u>715.55</u>
Classroom based ADA		
Transitional kindergarten through third	34.11	34.22
Fourth through sixth	25.85	25.88
Seventh and eighth	17.24	17.26
Ninth through twelfth	566.57	563.87
Total Classroom Based ADA	<u>643.77</u>	<u>641.23</u>

Orcutt Academy Charter High School operated a non-classroom based independent study instruction program. Determination of funding for non-classroom based independent study is not required due to the total amount of non-classroom based ADA is below 20 percent of total Charter ADA.

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,650	180	N/A	Complied
Grade 2		50,650	180	N/A	Complied
Grade 3		50,650	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,530	180	N/A	Complied
Grade 5		54,530	180	N/A	Complied
Grade 6		54,530	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		54,530	180	N/A	Complied
Grade 8		54,530	180	N/A	Complied

Orcutt Academy Charter High School

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,560	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		55,560	180	N/A	Complied
Grade 2		57,600	180	N/A	Complied
Grade 3		55,560	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,560	180	N/A	Complied
Grade 5		55,560	180	N/A	Complied
Grade 6		55,560	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		55,560	180	N/A	Complied
Grade 8		55,560	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,040	180	N/A	Complied
Grade 10		65,040	180	N/A	Complied
Grade 11		65,040	180	N/A	Complied
Grade 12		65,040	180	N/A	Complied

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND ⁴				
Revenues	\$ 43,924,030	\$ 44,789,766	\$ 38,530,064	\$ 35,326,712
Other sources	6,000	604,773	50,845	30,007
Total Revenues and Other Sources	43,930,030	45,394,539	38,580,909	35,356,719
Expenditures	43,643,731	42,535,438	39,182,754	35,151,673
Other uses and transfers out	555,664	353,997	414,078	622,540
Total Expenditures and Other Uses	44,199,395	42,889,435	39,596,832	35,774,213
INCREASE (DECREASE) IN FUND BALANCE	\$ (269,365)	\$ 2,505,104	\$ (1,015,923)	\$ (417,494)
ENDING FUND BALANCE	\$ 8,717,677	\$ 8,987,042	\$ 6,481,938	\$ 7,497,861
AVAILABLE RESERVES ²	\$ 1,325,982	\$ 1,293,922	\$ 1,198,255	\$ 1,047,558
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	3.00%	3.12%	3.11%	3.02%
LONG-TERM OBLIGATIONS	N/A	\$ 15,134,230	\$ 15,605,433	\$ 15,585,226
K-12 AVERAGE DAILY ATTENDANCE AT P-2	4,325	4,337	4,346	4,238

The General Fund balance has decreased by \$1,489,181 over the past two years. The fiscal year 2016-2017 budget projects an increase of \$269,365 (3.0 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 an operating deficit in the past two years and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have decreased by \$450,996 over the past two years.

Average daily attendance has increased by 99 over the past two years. ADA is expected to decline during fiscal year 2016-2017.

¹ Budget 2017 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$1,372,877, \$1,122,277, and \$1,066,782, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.

⁴ General Fund amounts do include activity related to the consolidation of the Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

⁵ Does not include Charter School

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Orcutt Academy Charter High School	Yes

See accompanying note to supplementary information.

ORCUTT UNION SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Child Development Fund	Cafeteria Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS			
Deposits and investments	\$ 15,128	\$ 1,437,436	\$ 296,116
Receivables	51	59,194	485
Due from other funds	4,607	12,412	60,658
Stores inventories	-	21,977	-
Total Assets	\$ 19,786	\$ 1,531,019	\$ 357,259
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3	\$ 40,853	\$ 58,744
Due to other funds	7,783	67,165	-
Unearned revenue	12,000	-	-
Total Liabilities	19,786	108,018	58,744
Fund Balances:			
Nonspendable	-	21,977	-
Restricted	-	1,401,024	-
Committed	-	-	-
Assigned	-	-	298,515
Total Fund Balances	-	1,423,001	298,515
Total Liabilities and Fund Balances	\$ 19,786	\$ 1,531,019	\$ 357,259

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 1,050,436	\$ 2,799,116
1,310	61,040
-	77,677
-	21,977
<u>\$ 1,051,746</u>	<u>\$ 2,959,810</u>

\$ -	\$ 99,600
-	74,948
-	12,000
<u>-</u>	<u>186,548</u>

-	21,977
-	1,401,024
1,051,746	1,051,746
-	298,515
<u>1,051,746</u>	<u>2,773,262</u>
<u>\$ 1,051,746</u>	<u>\$ 2,959,810</u>

ORCUTT UNION SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Child Development Fund	Cafeteria Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES			
Federal sources	\$ -	\$ 1,103,984	\$ -
Other State sources	174,351	81,848	-
Other local sources	153	635,837	2,004
Total Revenues	174,504	1,821,669	2,004
EXPENDITURES			
Current			
Instruction	164,916	-	-
Instruction-related activities:			
Supervision of instruction	4,694	-	-
Pupil services:			
Food services	-	1,824,088	-
Administration:			
All other administration	6,345	66,223	-
Plant services	-	2,936	-
Facility acquisition and construction	-	-	301,060
Community services	41	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	175,996	1,893,247	301,060
Excess (Deficiency) of Revenues			
Over Expenditures	(1,492)	(71,578)	(299,056)
Other Financing Sources (Uses)			
Transfers in	1,492	12,412	60,658
NET CHANGE IN FUND BALANCES	-	(59,166)	(238,398)
Fund Balances - Beginning	-	1,482,167	536,913
Fund Balances - Ending	\$ -	\$ 1,423,001	\$ 298,515

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ 1,103,984
13,067	269,266
<u>1,111,564</u>	<u>1,749,558</u>
<u>1,124,631</u>	<u>3,122,808</u>
-	164,916
-	4,694
-	1,824,088
-	72,568
-	2,936
-	301,060
-	41
900,000	900,000
<u>328,266</u>	<u>328,266</u>
<u>1,228,266</u>	<u>3,598,569</u>
<u>(103,635)</u>	<u>(475,761)</u>
-	74,562
<u>(103,635)</u>	<u>(401,199)</u>
<u>1,155,381</u>	<u>3,174,461</u>
<u>\$ 1,051,746</u>	<u>\$ 2,773,262</u>

ORCUTT UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The Medical Billing Option, funds have been recorded in the current period as revenues that have not been expended as of June 30, 2016. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 2,515,369
Medi-Cal Billing Option	93.778	<u>(72,765)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 2,442,604</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.

ORCUTT UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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 the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Orcutt Union School District
Orcutt, 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 Orcutt Union School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Orcutt Union School District's basic financial statements, and have issued our report thereon dated November 12, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orcutt Union 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 Orcutt Union School District in a separate letter dated November 12, 2016.

Purpose of This Report

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

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
November 12, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Orcutt Union School District
Orcutt, California

Report on Compliance for Each Major Federal Program

We have audited Orcutt Union School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Orcutt Union School District's (the District) major Federal programs for the year ended June 30, 2016. Orcutt Union School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orcutt Union School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Orcutt Union 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 Orcutt Union School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Orcutt Union 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, 2016.

Report on Internal Control Over Compliance

Management of Orcutt Union 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 Orcutt Union School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Orcutt Union School District's internal control over compliance.

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

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

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

Vannink, Tim, Day & Co., LLP

Rancho Cucamonga, California
November 12, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Orcutt Union School District
Orcutt, California

Report on State Compliance

We have audited Orcutt Union School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Orcutt Union School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Orcutt Union 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orcutt Union 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 Orcutt Union School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Orcutt Union 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, 2016.

Other Matters

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	No, see below
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

The District does not offer a Continuation Education Program; therefore, we did not perform procedures related to the Continuation Education Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The District did not spend any monies related to Educator Effectiveness; therefore, we did not perform any related procedures.

The District did not spend any monies related to California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not have an Independent Study – Course Based Program; therefore, we did not perform procedures related to the Independent Study – Course Based Program.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School did not have more than 20 percent of their total ADA generated through Non Classroom-Based Instruction; therefore we did not perform any related procedures.

The Charter did not receive funding for Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Vannink, Tein, Day & Co., LLP

Rancho Cucamonga, California
November 12, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ORCUTT UNION SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? No

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553,10.555</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

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

ORCUTT UNION SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

ORCUTT UNION SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

ORCUTT UNION SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

ORCUTT UNION SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board
Orcutt Union School District
Orcutt, California

In planning and performing our audit of the financial statements of Orcutt Union School District for the year ended June 30, 2016, 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 12, 2016, on the financial statements of Orcutt Union School District.

2015-2016 Observations and Recommendations

Cal-Card Usage

Observation

During our review of expenditures for the District's Cal-Card, there appears to be proper supporting documentation on purchases using the Cal-Card. Additionally, the following specific observations were made based on our review of sample Cal-Card transactions:

1. It appears that there were multiple transactions from the District's Business Department that should have gone through the District's regular purchasing channels. Sample activities reviewed indicated Department was incurring numerous purchases of \$40,000 per month in Cal-Card charges. Overall, it appears that majority of the District's expenditures are directly processed through the use of Cal-Cards for technology, curriculum and instruction, and various high school purchases.
2. There are voluminous number of expenditures directly charged on many different Cal-Cards without the creation of a purchase order. It is noted that Cal-Cards are being used to bypass the Districts purchase order procedures.

Recommendation

The District should consider modifying the formalized and specific Cal-Card usage procedure to control its activities. At a minimum, the policy should cover the following areas:

1. Daily and monthly limits by department and personnel.
2. The scope of activities Cal-Cards should be used in accordance with Board policy 3301.

3. Use of District issued credit cards shall be limited to reasonable and necessary expenses for conferences, meetings, travel and related expenditures while acting within the scope of official district business. All charges on District issued credit cards shall be made in accordance with all policies, procedures and bylaws of the Board.
4. Reduce the overall number of authorized Cal-Card holders and implement a procedure to checkout Cal-Cards from the District office as needed.

Regular transactions for District's day-to-day operations should be processed following established purchasing procedures. By substituting Cal-Cards in place of adhering to the District's purchasing procedures, the District is circumventing established controls that are intended to protect the District and its employees. Cal-Card may be required and used for certain travel related expenditures. However, all travel and conference activities must be authorized following District procedures. Cal-Card transactions for travel and conferences should not take place prior to the authorization.

Reimbursements of Parent Teacher Association (PTA) expenditures

Observation

The District office has some of the outside PTA organization providing revenues for specific classroom expenditures that require the District's accounts payable department to make the appropriate reimbursements.

Recommendation

The PTA organization should keep all reimbursement within the accounting at the PTA in order to properly monitor expenditures are in accordance with specific request.

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

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
November 12, 2016