

**GARDEN GROVE UNIFIED SCHOOL
DISTRICT
AUDIT REPORT
JUNE 30, 2018**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

GARDEN GROVE UNIFIED SCHOOL DISTRICT
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JUNE 30, 2018

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Garden Grove Unified School District
Garden Grove, 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 Garden Grove Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Garden Grove Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Christy White, CPA

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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 Garden Grove Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of Garden Grove Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Garden Grove Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garden Grove Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 14, 2018

GARDEN GROVE UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Our discussion and analysis of Garden Grove Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position decreased 10.22% from 2016-2017, due to the GASB 75 restatement of total OPEB liability (Table 1)
- Overall revenues were \$602.0 million, \$14.3 million more than expenses (Table 2)
- The net cost of basic programs decreased 1.68% to \$471.2 million (Table 3)
- The District invested in:
 - Two (2) hearing screening systems - \$17,983
 - Two (2) vision screening systems - \$17,383
 - Warehouse Lift Truck and Fork Lift - \$69,731
 - Warehouse Pallet Rack project - \$88,580
 - Smoke Inspection System (Transportation) - \$17,597
- CTE/ROP Program purchases include:
 - Auto Shop at three (3) sites - \$306,957
 - CTE projects at four (4) high schools - \$1,214,941
- The District invested the following in Information Technology purchases and improvements:
 - Video surveillance project - \$184,610
 - Firewall Security - \$69,599
 - Virtual Computer Software project - \$163,016
 - Data storage system - \$41,881
 - Hardware/software bundle - \$152,167
 - Cabling projects totaling \$823,706; of this \$700,150 was an E-rate donation
- Food Services expenditures included the following capitalized items:
 - Eight (8) Cabinets - \$50,276
 - Eight (8) Ovens - \$81,043
 - One (1) Gas Steam Kettle - \$16,971
 - Two (2) Stainless Steel Sinks - \$48,908
 - Two (2) Tilting Skillet Braising Pans - \$39,887
- School Improvement Projects include:
 - Playground Structures at sixteen (16) schools - \$778,878
 - Shade Structures at four (4) schools - \$197,040
 - Fence projects at four (4) schools - \$281,485
 - Pool project at one (1) high school - \$75,800
 - Parking Lot project at one (1) elementary school - \$44,689
 - Drought Tolerant Landscape (DTL) project at three (3) schools - \$199,938
 - Audio project at one (1) high school - \$29,946
 - Heating Ventilation Air Conditioning (HVAC) projects at seven (7) schools - \$4,115,390
 - Lunch Table projects at five (5) schools - \$160,645
 - Roof Repairs at two (2) sites - \$149,207

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

FINANCIAL HIGHLIGHTS (continued)

- Maintenance and Operations (M&O) equipment purchases and improvements include:
 - Twenty-five (25) trucks - \$1,143,515
 - Five (5) cargo vans - \$158,146
 - One (1) mower - \$67,536
 - One (1) chipper truck - \$84,553
 - Fire Restoration project at one (1) high school - \$650,573
 - Maintenance & Operations (M & O) relocation costs - \$591,646
- Facilities Projects include:
 - Work in Progress for modernization - \$107.7 million
 - Costs captured through the work order system - \$98,188
 - Completed modernization projects at two (2) sites - \$53.2 million

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements 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.
- *Proprietary funds* statements offer short- and long-term financial information about the District's self-insurance funds.

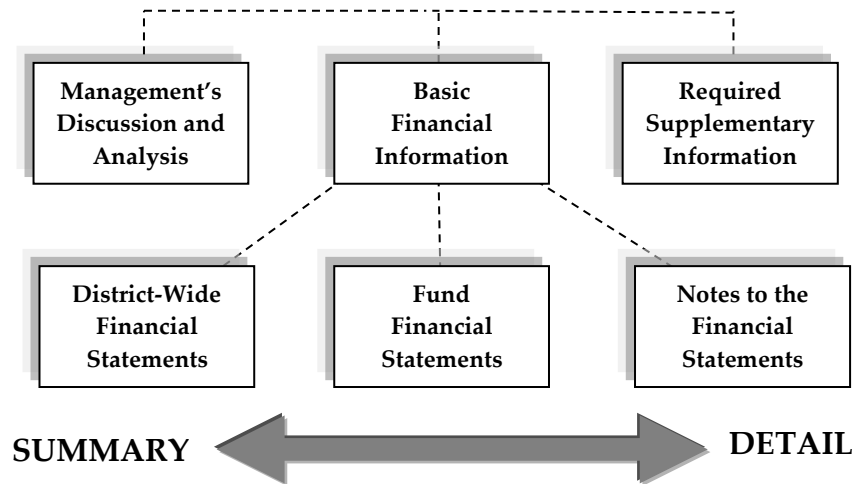
The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Components of the Financials Section

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



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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Fund Statements		
		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 the district operates similar to private businesses: self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<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 Revenues, Expenses & Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Changes in 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
<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 financial and capital; short-term and long-term	All assets and liabilities, both short-term and long-term, the District’s funds do not currently contain nonfinancial assets, although, they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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 it has changed. Net position is 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, respectively.
- 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.

The District's activities are represented in the district-wide financial statements.

- *Governmental activities* – All of the District's basic services are included, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The District has three 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 to 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 end of the governmental funds statement that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported similar to the district-wide statements.
 - We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the self-insurance fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position. The District's net position as of June 30, 2018 was \$525.1 million, reflecting a decrease of 10.22% since June 30, 2017 (see Table 1).

	Table 1		
	Governmental Activities		
	2018	2017	Percentage Change
ASSETS			
Current and other assets	\$ 547,982,044	\$ 637,555,187	-14.05%
Capital assets	986,690,665	865,591,742	13.99%
Total Assets	1,534,672,709	1,503,146,929	2.10%
DEFERRED OUTFLOWS OF RESOURCES	176,836,293	109,727,567	61.16%
LIABILITIES			
Current liabilities	89,371,770	67,978,905	31.47%
Long-term liabilities	1,068,862,752	947,548,765	12.80%
Total Liabilities	1,158,234,522	1,015,527,670	14.05%
DEFERRED INFLOWS OF RESOURCES	28,199,371	12,473,817	126.07%
NET POSITION			
Net investment in capital assets	683,716,452	647,353,339	5.62%
Restricted	92,418,247	103,386,047	-10.61%
Unrestricted	(251,059,590)	(165,866,377)	51.36%
Total Net Position	\$ 525,075,109	\$ 584,873,009	-10.22%

The District's financial position is the product of many factors including funding under the Local Control Funding Formula (LCFF) and the receipt of state modernization funds for our capital improvement projects. It is also impacted by GASB 68 as explained in the section titled Economic Factors and Next Year's Budget (page 16).

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in net position. The District's total revenues decreased 3.38% to \$602.0 million. (See Table 2) Property taxes and state formula aid accounted for most of the District's revenue, contributing about 78.52% of every dollar raised. (See Figure A-3.) Another 18.80% came from operating and capital grants and contributions, and the remainder came from miscellaneous sources and fees charged for services.

The total cost of all programs and services decreased 6.36% to \$587.7 million. The District's expenses are predominantly related to educating and caring for students (80.05%). (See Figure A-4.) The purely administrative activities of the District accounted for 4.55% of total costs.

Total revenues surpassed expenditures by \$14.3 million.

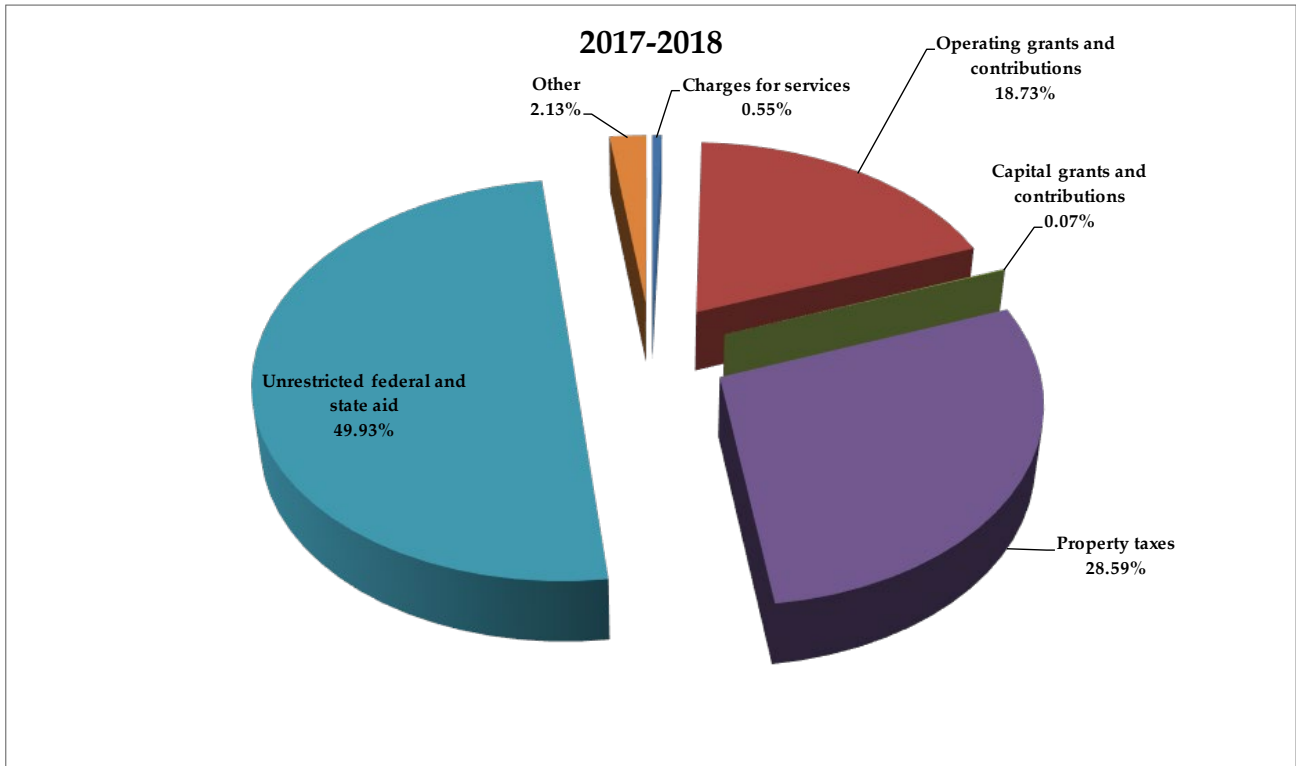
	2018	2017	Percentage Change
REVENUES			
Program revenues			
Charges for services	\$ 3,306,080	\$ 4,828,097	-31.52%
Operating grants and contributions	112,742,474	142,856,637	-21.08%
Capital grants and contributions	439,953	643,240	-31.60%
General revenues			
Property taxes	172,129,573	144,739,122	18.92%
Unrestricted federal and state aid	300,603,498	320,258,445	-6.14%
Other	12,800,489	9,777,600	30.92%
Total Revenues	602,022,067	623,103,141	-3.38%
EXPENSES			
Instruction	341,665,610	383,128,001	-10.82%
Instruction-related services	56,943,207	61,644,092	-7.63%
Pupil services	71,853,573	73,739,226	-2.56%
General administration	26,754,858	24,822,947	7.78%
Plant services	56,332,738	50,220,340	12.17%
Ancillary and community services	10,621,860	11,766,108	-9.72%
Debt service	16,813,079	15,252,288	10.23%
Other outgo	6,693,164	6,937,165	-3.52%
Enterprise activities	18,866	92,358	-79.57%
Total Expenses	587,696,955	627,602,525	-6.36%
Change in net position	14,325,112	(4,499,384)	-418.38%
Net Position - Beginning, as Restated*	510,749,997	589,372,393	-13.34%
Net Position - Ending	\$ 525,075,109	\$ 584,873,009	-10.22%

* Beginning Net Position was restated for the 2018 year only

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

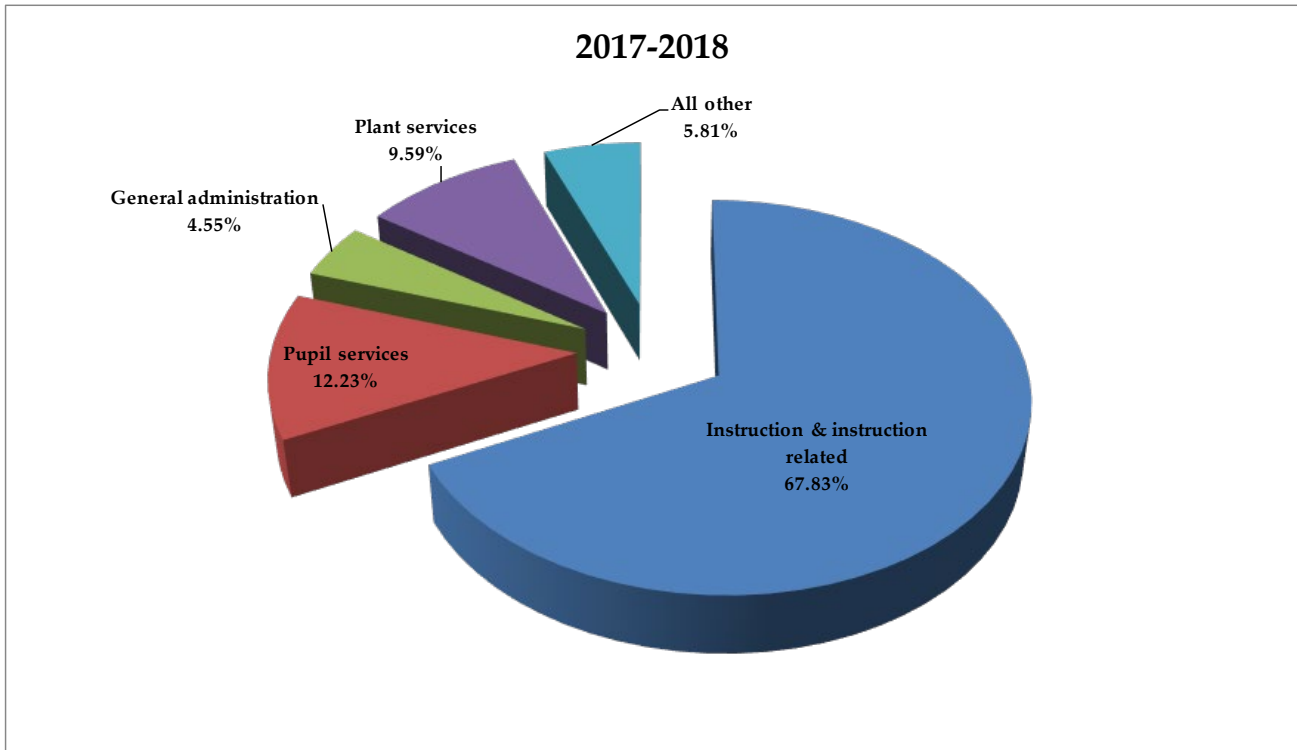
Figure A-3
Sources of Garden Grove Unified School District's Revenues for Fiscal Year 2018



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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

**Figure A-4
Sources of Garden Grove Unified School District's Expenses for Fiscal Year 2018**



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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Governmental Activities

Revenues for the District's governmental activities decreased 3.38%, and total expenses decreased 6.36%. The net position decreased 10.22% in 2017-2018, compared to a decrease of 0.76% last year, due to a restatement (see Note 16).

The District's financial health can be credited to the following management actions:

- Conservative District philosophy, fiscal management and cash flow management.
- The District maintains a highly centralized budgeting approach that allows for tight controls at the administrative level.
- Position control procedures require budget allocation and approval prior to creation of new positions insuring that communication is maintained between the Business Office and the Personnel Office.
- Class sizes are monitored closely in all grades to assure that teacher-student ratios are optimum.
- The Business Office annually prepares a 2-year budget projection allowing decisions to be made in advance of anticipated budget changes.
- Expenditures are analyzed for appropriateness to maximize instructional effectiveness.

The Statement of Activities categorizes the activities presented in Table 2 by revenue source:

- The total cost of all governmental activities this year was \$587.7 million.
- The amount of \$3.3 million was paid by the users of the District's programs.
- The federal and state governments subsidized programs with grants and contributions totaling \$112.7 million.
- State Modernization Program further added \$0.4 million toward the cost of all activities.
- District taxpayers and the taxpayers of California paid \$472.7 million, supporting the majority of the District's costs.
- Local and miscellaneous revenues account for \$12.8 million.
- Net position increased \$14.3 million in 2017-18.

Table 3 shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Governmental Activities (continued)

**Table 3
Net Cost of Services**

	2018	2017	Percentage Change
Instruction	\$ 291,532,203	\$ 302,758,819	-3.71%
Instruction-related services	43,640,464	47,406,887	-7.94%
Pupil services	40,572,845	42,933,925	-5.50%
General administration	16,934,318	21,325,707	-20.59%
Plant services	55,582,324	43,002,641	29.25%
Ancillary and community services	3,900,219	4,265,327	-8.56%
Debt service	16,813,079	15,252,288	10.23%
Transfers to other agencies	2,221,774	2,261,798	-1.77%
Enterprise activities	11,222	67,159	-83.29%
Total Expenses	\$ 471,208,448	\$ 479,274,551	-1.68%

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, the governmental funds reflected a combined fund balance amount of \$313.2 million, compared to last year’s restated fund balance amount of \$403.2 million.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Major budget amendments between the Adopted Budget and the Final Budget are explained below.

Over the course of the year, the Board approved four versions of the operating budget. These budget revisions fall into the categories of Adopted, First Interim, Second Interim and Final. At each reporting period the Board approved the budget revisions and appropriation transfers that were presented.

Revenues under Local Control Funding Formula (LCFF) were decreased by \$769 thousand due to factors outlined in the chart below:

Factor	2017-2018 Adopted	2017-2018 Unaudited Actuals	Difference
COLA	1.56%	1.56%	No Change
GAP	43.97%	42.97%	(1.00%)
2017-18 Unduplicated Pupil Percentage	80.09%	76.60%	(3.49%)
3-Year Rolling Average Percentage	76.61%	75.62%	(0.99%)

Federal revenues increased overall by \$1.7 million. Budgetary increases were primarily made in Title I Part A of the Elementary and Secondary (ESEA) and Medi-Cal.

Federal revenue decreases were made in Special Education IDEA Basic Local Assistance and Title IV Part B, 21st Century Community Learning Centers Programs.

State revenue increased overall by \$23.6 million. Budgetary increases were mainly made in California Clean Energy Jobs Act (Prop 39), Career Technical Education Incentive Grant (CTEIG) Program, Lottery, After School Education and Safety, and STRS On-Behalf.

Overall local revenues increased by \$5.8 million. Increases include Donations and Gifts, Interest, Miscellaneous, Vandalism Reimbursement, Career Technical Education /Regional Occupation Program (CTE/ROP), and School-Based Medi-Cal Administrative Activities (SMAA).

Major budget amendments in expenditures include a negotiated salary settlement for CSEA and Supervisory employees of 0.5% increase on the schedule, a liability for a negotiated 2% one-time off-schedule increase, and changes in staff due to actual enrollment, along with categorical and Special Education staffing. Employee benefits changed based on salary adjustments and changes in health premiums, PERS and STRS rate increases, and the STRS On-Behalf payment was included. Books, supplies and services were adjusted as necessary to meet program and educational requirements. Capital outlay budgets increased in information technology, transportation, and equipment related to the MOT Priority Study Year Four results.

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

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

As shown on page 79, the District's Final Budget for the general fund shows anticipated revenues and transfers-in to be approximately \$80.8 million less than expenditures and transfers-out; and the actual results for the year show a \$6.3 million decrease.

Instructional and instruction-related functions were budgeted at \$424.4 million, however, expenditures were actually \$379.2 million, primarily due to: unspent one-time site grants for textbooks, Site Local Control Funding Formula (LCFF), ROP Special Projects, and unrestricted educational programs. These unspent funds will be carried over into 2018-19. Also, several programs such as Title I, Title II, Title III, and Site Local Control Funding Formula (LCFF) hold amounts in contingency until necessary and the amounts are then carried over if unused. Contingency amounts totaling \$9.7 million have an instruction-related designation until allocated for actual use.

Pupil service categories were budgeted at \$54.2 million and actual amounts were \$44.7 million. Pupil service function includes the categories of Guidance, Psychological, Attendance/Social Welfare, Health, Pupil Testing, Speech/Pathology, and Transportation. Unspent amounts in this category were \$9.5 million, and relate to contingency amounts in funding for Medi-Cal and Transportation GPS Tracking System, as well as unspent Mental Health funds budgeted for services.

General administrative costs were budgeted at \$28.2 million; actual expenditures were \$22.8 million. The unspent administrative cost balances included Information Technology Projects. These amounts were budgeted for in 2017-2018 and expenditures are to be continued in 2018-2019.

Maintenance and operations of school facilities were budgeted at \$59.0 million; actual expenditures were \$50.2 million, which primarily consisted of savings due to vacant positions and utility costs.

Budgeted facility acquisition and construction dollars were \$20.0 million; actual expenditures were \$6.4 million. These amounts contained projects that were budgeted in 2017-2018 and are to be continued in 2018-2019. These projects involved the California Clean Energy Jobs Act (Prop. 39) and school refurbishing projects.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested an additional net \$121.1 million in a broad range of capital assets which include land improvements, building construction, work in progress, and equipment. (See Table 4) This represents a net increase of 13.99% over last year’s amount of \$865.6 million. (More detailed information about capital assets can be found in Note 1E and Note 4 to the financial statements.) The net depreciation expense for the year was \$17.2 million.

Garden Grove Unified School District’s student enrollment decreased from 44,493 in 2016-2017 to 43,336 in 2017-2018. Annual trends indicate that statewide enrollment is expected to continue to decline in future years.

**Table 4
Governmental Activities**

	2018	2017	Percentage Change
CAPITAL ASSETS			
Land	\$ 228,184,670	\$ 228,184,670	0.00%
Construction in progress	215,591,316	163,001,550	32.26%
Land improvements	17,766,094	16,205,578	9.63%
Buildings & improvements	687,109,264	605,155,402	13.54%
Furniture & equipment	41,722,653	39,482,338	5.67%
Accumulated depreciation	(203,683,332)	(186,437,796)	9.25%
Total Capital Assets	\$ 986,690,665	\$ 865,591,742	13.99%

In 2018-2019, General Fund has budgeted \$5,348,466 for capital projects. The District continues to focus on modernizing facilities.

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Liabilities

At year-end the District had \$1.07 billion in long-term liabilities, an increase of 5.75% from last year's restated balance, as shown in Table 5. (More detailed information about the District's long-term liabilities is presented in Note 1E and Note 8 to the financial statements.)

On June 8, 2010 the voters of the District approved by more than 55% Measure A which authorizes \$250 million in general obligation bonds for the modernization of district schools. Under state law, the bond money can only be used for acquiring, constructing, or improving school facilities, and furniture and equipment. Bond funds will be deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen's Oversight Committee has been established to assure the appropriate expenditure of Measure A funds. As of June 30, 2018, \$250 million in General Obligation Bonds have been issued.

The use of Measure A funds for teacher and administrator salaries or operating expenses unrelated to bond measure projects is strictly prohibited.

On November 8, 2016 the voters of the District approved by more than 55% Measure P which authorizes \$311 million in general obligation bonds to repair/replace roofs, plumbing, and inadequate electrical systems; install air conditioning; upgrade classrooms, science labs, and access to instructional technology; provide classrooms/labs for career technology education that prepares students for college/careers; improve access for individuals with disabilities and earthquake/fire safety and campus security/lighting/cameras. Bond funds will be deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen's Oversight Committee has been established to assure the appropriate expenditure of Measure P funds. As of June 30, 2018, \$90 million in General Obligation Bonds have been issued.

**Table 5
Governmental Activities**

	2018	2017	Percentage Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 341,168,137	\$ 342,395,482	-0.36%
Capital leases	-	43,639	-100.00%
Compensated absences	3,492,875	3,472,441	0.59%
Total OPEB liability*	182,654,195	180,350,799	1.28%
Net pension liability	549,551,047	486,286,907	13.01%
Less: current portion of long-term debt	(8,003,502)	(1,797,382)	345.29%
Total Long-term Liabilities	\$ 1,068,862,752	\$ 1,010,751,886	5.75%

**Total OPEB liability for 2017 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.*

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

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

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

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 Roxanne Linss, Director of Business Services, Garden Grove Unified School District, 10331 Stanford Avenue; Garden Grove, California 92840.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 531,306,978
Accounts receivable	15,373,507
Inventory	1,301,559
Capital assets, not depreciated	443,775,986
Capital assets, net of accumulated depreciation	542,914,679
Total Assets	<u>1,534,672,709</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	171,616,727
Deferred outflows related to OPEB	5,219,566
Total Deferred Outflows of Resources	<u>176,836,293</u>
LIABILITIES	
Accrued liabilities	64,246,604
Unearned revenue	1,838,855
Claims liabilities	15,282,809
Long-term liabilities, current portion	8,003,502
Long-term liabilities, non-current portion	1,068,862,752
Total Liabilities	<u>1,158,234,522</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	28,014,703
Deferred inflows related to OPEB	184,668
Total Deferred Inflows of Resources	<u>28,199,371</u>
NET POSITION	
Net investment in capital assets	683,716,452
Restricted:	
Capital projects	55,828,490
Debt service	10,565,725
Educational programs	12,485,583
All others	13,538,449
Unrestricted	(251,059,590)
Total Net Position	<u>\$ 525,075,109</u>

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

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

Function/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 341,665,610	\$ 80,401	\$ 49,613,053	\$ 439,953	\$ (291,532,203)
Instruction-related services					
Instructional supervision and administration	20,859,505	6,261	9,754,478	-	(11,098,766)
Instructional library, media, and technology	2,010,875	11,016	541,445	-	(1,458,414)
School site administration	34,072,827	170,407	2,819,136	-	(31,083,284)
Pupil services					
Home-to-school transportation	14,461,060	-	-	-	(14,461,060)
Food services	23,113,685	2,117,385	20,241,268	-	(755,032)
All other pupil services	34,278,828	28,753	8,893,322	-	(25,356,753)
General administration					
Centralized data processing	6,208,069	-	-	-	(6,208,069)
All other general administration	20,546,789	654,769	9,165,771	-	(10,726,249)
Plant services	56,332,738	39,553	710,861	-	(55,582,324)
Ancillary services	10,324,753	308	6,721,333	-	(3,603,112)
Community services	297,107	-	-	-	(297,107)
Enterprise activities	18,866	-	7,644	-	(11,222)
Interest on long-term debt	16,813,079	-	-	-	(16,813,079)
Other outgo	6,693,164	197,227	4,274,163	-	(2,221,774)
Total Governmental Activities	\$ 587,696,955	\$ 3,306,080	\$ 112,742,474	\$ 439,953	(471,208,448)
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes					
					144,033,980
Property taxes, levied for debt service					
					20,505,410
Property taxes, levied for other specific purposes					
					7,590,183
Federal and state aid not restricted for specific purposes					
					300,603,498
Interest and investment earnings					
					3,440,870
Interagency revenues					
					498,713
Miscellaneous					
					8,860,906
Subtotal, General Revenue					
					485,533,560
CHANGE IN NET POSITION					
					14,325,112
Net Position - Beginning, as Restated					
					510,749,997
Net Position - Ending					
					\$ 525,075,109

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

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 129,612,970	\$ 49,958,922	\$ 89,454,005	\$ 93,055,394	\$ 362,081,291
Accounts receivable	9,390,659	69,935	118,991	5,508,225	15,087,810
Due from other funds	1,655,505	3,110,958	11,218,737	346,752	16,331,952
Stores inventory	909,775	-	-	391,784	1,301,559
Total Assets	\$ 141,568,909	\$ 53,139,815	\$ 100,791,733	\$ 99,302,155	\$ 394,802,612
LIABILITIES					
Accrued liabilities	\$ 31,822,812	\$ 6,441,319	\$ 11,461,816	\$ 4,614,045	\$ 54,339,992
Due to other funds	12,074,711	11,268,320	-	2,112,363	25,455,394
Unearned revenue	1,440,427	-	-	398,428	1,838,855
Total Liabilities	45,337,950	17,709,639	11,461,816	7,124,836	81,634,241
FUND BALANCES					
Nonspendable	1,109,775	-	-	417,360	1,527,135
Restricted	11,607,755	35,430,176	-	87,742,175	134,780,106
Committed	32,916,549	-	-	3,020,571	35,937,120
Assigned	30,247,654	-	89,329,917	-	119,577,571
Unassigned	20,349,226	-	-	997,213	21,346,439
Total Fund Balances	96,230,959	35,430,176	89,329,917	92,177,319	313,168,371
Total Liabilities and Fund Balances	\$ 141,568,909	\$ 53,139,815	\$ 100,791,733	\$ 99,302,155	\$ 394,802,612

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds \$ 313,168,371

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

Capital assets:

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

Capital assets	\$ 1,190,373,997	
Accumulated depreciation	<u>(203,683,332)</u>	986,690,665

Unmatured interest on long-term debt:

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

(6,931,683)

Long-term liabilities:

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

Total general obligation bonds	\$ 341,168,137	
Compensated absences	3,492,875	
Net pension liability	<u>549,551,047</u>	(894,212,059)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 171,616,727	
Deferred inflows of resources related to pensions	<u>(28,014,703)</u>	143,602,024

Internal service funds:

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

(17,242,209)

Total Net Position - Governmental Activities \$ 525,075,109

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 425,036,957	\$ -	\$ -	\$ 4,092,548	\$ 429,129,505
Federal sources	30,182,062	-	-	22,637,206	52,819,268
Other state sources	76,846,767	-	-	8,687,134	85,533,901
Other local sources	9,350,540	1,061,135	826,062	34,310,311	45,548,048
Total Revenues	541,416,326	1,061,135	826,062	69,727,199	613,030,722
EXPENDITURES					
Current					
Instruction	326,025,141	-	-	5,381,076	331,406,217
Instruction-related services					
Instructional supervision and administration	20,091,189	-	-	612,180	20,703,369
Instructional library, media, and technology	1,833,054	-	-	83,854	1,916,908
School site administration	31,285,630	-	-	1,522,606	32,808,236
Pupil services					
Home-to-school transportation	13,744,258	-	-	-	13,744,258
Food services	120,211	-	-	22,523,734	22,643,945
All other pupil services	30,878,193	-	-	914,386	31,792,579
General administration					
Centralized data processing	5,829,781	-	-	-	5,829,781
All other general administration	16,905,978	-	-	1,097,651	18,003,629
Plant services					
Facilities acquisition and maintenance	6,411,022	76,375,349	24,120,028	31,020,919	137,927,318
Ancillary services	10,281,303	-	-	-	10,281,303
Community services	289,305	-	-	-	289,305
Enterprise activities	18,866	-	-	-	18,866
Transfers to other agencies	7,346,666	-	-	-	7,346,666
Debt service					
Principal	43,639	-	-	1,100,000	1,143,639
Interest and other	1,824	-	-	16,426,765	16,428,589
Total Expenditures	521,256,951	76,375,349	24,157,863	81,933,507	703,723,670
Excess (Deficiency) of Revenues					
Over Expenditures	20,159,375	(75,314,214)	(23,331,801)	(12,206,308)	(90,692,948)
Other Financing Sources (Uses)					
Transfers in	873,738	-	38,218,737	352,183	39,444,658
Transfers out	(27,352,183)	(11,218,737)	-	(201,082)	(38,772,002)
Net Financing Sources (Uses)	(26,478,445)	(11,218,737)	38,218,737	151,101	672,656
NET CHANGE IN FUND BALANCE	(6,319,070)	(86,532,951)	14,886,936	(12,055,207)	(90,020,292)
Fund Balance - Beginning, as Restated	102,550,029	121,963,127	74,442,981	104,232,526	403,188,663
Fund Balance - Ending	\$ 96,230,959	\$ 35,430,176	\$ 89,329,917	\$ 92,177,319	\$ 313,168,371

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Governmental Funds \$ (90,020,292)

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

Capital outlay:

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

Expenditures for capital outlay:	\$ 138,815,827	
Depreciation expense:	<u>(17,716,904)</u>	121,098,923

Debt service:

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

1,143,639

Unmatured interest on long-term debt:

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

141,667

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(526,157)

Compensated absences:

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

(20,434)

(continued on next page)

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2018**

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (16,915,866)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 653,502

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: (1,229,870)

Change in Net Position of Governmental Activities	<u>\$ 14,325,112</u>
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GARDEN GROVE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 169,225,687
Accounts receivable	285,697
Due from other funds	9,378,011
Total Assets	178,889,395
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to OPEB	5,219,566
Total Deferred Outflows of Resources	5,219,566
LIABILITIES	
Current liabilities	
Accrued liabilities	2,974,929
Due to other funds	254,569
Total current liabilities	3,229,498
Non-current liabilities	
Claims liabilities	15,282,809
Total OPEB liability	182,654,195
Total non-current liabilities	197,937,004
Total Liabilities	201,166,502
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to OPEB	184,668
Total Deferred Inflows of Resources	184,668
NET POSITION	
Restricted	(17,242,209)
Total Net Position	\$ (17,242,209)

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 55,310,314
Other local revenues	5,557,805
Total operating revenues	<u>60,868,119</u>
OPERATING EXPENSE	
Salaries and benefits	1,320,153
Supplies and materials	3,349
Professional services	62,170,223
Total operating expenses	<u>63,493,725</u>
Operating income/(loss)	<u>(2,625,606)</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	2,055,475
Grant income	12,917
Transfers out	(672,656)
Total non-operating revenues/(expenses)	<u>1,395,736</u>
CHANGE IN NET POSITION	(1,229,870)
Net Position - Beginning, as restated	<u>(16,012,339)</u>
Net Position - Ending	<u>\$ (17,242,209)</u>

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Cash flows from operating activities	
Cash received (paid) from assessments made to (from) other funds	\$ 55,928,754
Cash payments for payroll, insurance, and operating costs	(63,239,857)
Net cash provided by (used for) operating activities	<u>(7,311,103)</u>
Cash flows from non-capital financing activities	
Non-operating grants received	12,917
Interfund transfers in (out)	(672,656)
Net cash provided by (used for) non-capital financing activities	<u>(659,739)</u>
Cash flows from investing activities	
Interest received	2,055,475
Net cash provided by (used for) investing activities	<u>2,055,475</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(5,915,367)</u>
 CASH AND CASH EQUIVALENTS	
Beginning of year	175,141,054
End of year	<u>\$ 169,225,687</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ (2,625,606)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	29,150
(Increase) decrease in due from other funds	(4,968,515)
(Increase) decrease in deferred outflows of resources	(1,175,446)
Increase (decrease) in accounts payable	(17,371)
Increase (decrease) in due to other funds	(362,964)
Increase (decrease) in claims liabilities	(493,747)
Increase (decrease) in total OPEB liabilities	2,303,396
Net cash provided by (used for) operating activities	<u>\$ (7,311,103)</u>

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

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

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and investments	\$ 1,690,268
Total Assets	<u>\$ 1,690,268</u>
LIABILITIES	
Due to student groups	\$ 1,690,268
Total Liabilities	<u>\$ 1,690,268</u>

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on those criteria, the District has determined that there are no potential component units that should be included in the District's financial reporting entity.

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

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

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

C. **Basis of Presentation** (*continued*)

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

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

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

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

Major Governmental Funds

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

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

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

Non-Major Governmental Funds

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Special Revenue Funds (continued)

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

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

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

Proprietary Funds

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

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

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus**

Government-Wide, Proprietary, and Fiduciary Financial Statements

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

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

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

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

Expenses/Expenditures

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

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

Cash and Cash Equivalents

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

Investments

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

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

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

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

Inventories

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

Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$15,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

Interfund Balances

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

Compensated Absences

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accrued Liabilities and Long-Term Obligations

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

Pensions

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

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

Fund Balance

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

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

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

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

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

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

Fund Balance (*continued*)

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

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

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

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

F. Interfund Activity

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 75 for the year ended June 30, 2018.

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

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

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

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

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

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental	Internal Service	Total	Fiduciary
	Funds	Funds	Governmental	Funds
			Activities	
Investment in county treasury	\$ 353,699,175	\$ 164,449,779	\$ 518,148,954	\$ -
Cash on hand and in banks	8,156,540	4,775,908	12,932,448	1,690,268
Cash in revolving fund	225,576	-	225,576	-
Total cash and investments	\$ 362,081,291	\$ 169,225,687	\$ 531,306,978	\$ 1,690,268

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Orange County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$516,046,171 and an amortized book value of \$518,148,954. The average weighted maturity for this pool is 350 days.

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

NOTE 2 – CASH AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated AAAM.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

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

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

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

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value (continued)

The District's fair value measurements at June 30, 2018 were as follows:

	Uncategorized
Investment in county treasury	<u>\$ 516,046,171</u>
Total fair market value of investments	<u>\$ 516,046,171</u>

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Activities</u>
Federal Government						
Categorical aid	\$ 1,079,956	\$ -	\$ -	\$ 3,591,060	\$ -	\$ 4,671,016
State Government						
Categorical aid	1,287,907	-	-	1,193,737	-	2,481,644
Lottery	1,886,290	-	-	-	-	1,886,290
Local Government						
Other local sources	5,136,506	69,935	118,991	723,428	285,697	6,334,557
Total	<u>\$ 9,390,659</u>	<u>\$ 69,935</u>	<u>\$ 118,991</u>	<u>\$ 5,508,225</u>	<u>\$ 285,697</u>	<u>\$ 15,373,507</u>

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

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 228,184,670	\$ -	\$ -	\$ 228,184,670
Construction in progress	163,001,550	107,720,959	55,131,193	215,591,316
Total Capital Assets not Being Depreciated	391,186,220	107,720,959	55,131,193	443,775,986
Capital assets being depreciated				
Land improvements	16,205,578	1,560,516	-	17,766,094
Buildings & improvements	605,155,402	81,953,862	-	687,109,264
Furniture & equipment	39,482,338	2,711,683	471,368	41,722,653
Total Capital Assets Being Depreciated	660,843,318	86,226,061	471,368	746,598,011
Less Accumulated Depreciation				
Land improvements	10,019,189	512,765	-	10,531,954
Buildings & improvements	148,422,487	15,521,535	-	163,944,022
Furniture & equipment	27,996,120	1,682,604	471,368	29,207,356
Total Accumulated Depreciation	186,437,796	17,716,904	471,368	203,683,332
Governmental Activities				
Capital Assets, net	\$ 865,591,742	\$ 176,230,116	\$ 55,131,193	\$ 986,690,665

Depreciation expense for the year ended June 30, 2018 was allocated to governmental activities, as follows:

Governmental Activities	
Instruction	\$ 10,911,880
Instructional supervision and administration	81,551
Instructional library, media, and technology	80,320
School site administration	577,863
Home-to-school transportation	4,138
Food services	218,174
All other pupil services	1,978,569
Centralized data processing	454,493
All other general administration	1,770,287
Plant services	1,639,629
Total depreciation expense	\$ 17,716,904

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

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

Due To Other Funds	Due From Other Funds					Total
	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 2,631,705	\$ -	\$ 328,883	\$ 9,114,123	\$ 12,074,711
Building Fund	26,182	-	11,218,737	-	23,401	11,268,320
Non-Major Governmental Funds	1,392,623	479,253	-	-	240,487	2,112,363
Internal Service Fund	236,700	-	-	17,869	-	254,569
Total Due From Other Funds	\$ 1,655,505	\$ 3,110,958	\$ 11,218,737	\$ 346,752	\$ 9,378,011	\$ 25,709,963

The General Fund owed the Building Fund for reimbursement of expenditures.	\$ 2,631,705
The General Fund owed the Non-Major Adult Education Fund for reimbursement of expenditures.	154,340
The General Fund owed the Non-Major Child Development Fund for reimbursement of expenditures.	3,421
The General Fund owed the Non-Major Cafeteria Fund for reimbursement of expenditures.	58,802
The General Fund owed the Non-Major Capital Facilities Fund for reimbursement of expenditures.	190
The General Fund owed the Non-Major County School Facilities Fund for reimbursement of expenditures.	112,130
The General Fund owed the Internal Service Fund for reimbursement of expenditures.	9,114,123
The Building Fund owed the General Fund for reimbursement of expenditures.	26,182
The Building Fund owed the Special Reserve Fund for Capital Outlay Projects for reimbursement of expenditures.	11,218,737
The Building Fund owed the Internal Service Fund for reimbursement of expenditures.	23,401
The Non-Major Adult Education Fund owed the General Fund for reimbursement of expenditures.	76,923
The Non-Major Child Development Fund owed the General Fund for reimbursement of expenditures.	746,472
The Non-Major Cafeteria Fund owed the General Fund for reimbursement of expenditures.	209,546
The Non-Major Deferred Maintenance Fund owed the General Fund for reimbursement of expenditures.	201,082
The Non-Major Capital Facilities Fund owed the General Fund for reimbursement of expenditures.	158,600
The Non-Major Capital Facilities Fund owed the Building Fund for reimbursement of expenditures.	479,253
The Non-Major Adult Education Fund owed the Internal Service Fund for reimbursement of expenditures.	37,601
The Non-Major Child Development Fund owed the Internal Service Fund for reimbursement of expenditures.	80,338
The Non-Major Cafeteria Fund owed the Internal Service Fund for reimbursement of expenditures.	122,548
The Internal Service Fund owed the General Fund for reimbursement of expenditures.	236,700
The Internal Service Fund owed the Non-Major Child Development Fund for reimbursement of expenditures.	17,869
Total	\$ 25,709,963

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

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

Interfund Transfers Out	Interfund Transfers In				Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds		
General Fund	\$ -	\$ 27,000,000	\$ 352,183	\$	27,352,183
Building Fund	-	11,218,737	-		11,218,737
Non-Major Governmental Funds	201,082	-	-		201,082
Internal Service Fund	672,656	-	-		672,656
Total Interfund Transfers	\$ 873,738	\$ 38,218,737	\$ 352,183	\$	39,444,658

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects to fund projects.	\$	27,000,000
The General Fund transferred to the Non-Major Child Development Fund for expenditures incurred.		352,183
The Building Fund transferred to the Special Reserve Fund for Capital Outlay Projects to fund projects.		11,218,737
The Non-Major Deferred Maintenance Fund transferred to the General Fund for reimbursement of work orders.		201,082
The Internal Service Fund transferred to the General Fund for reimbursement of loss due to the fire at Bolsa High School, computer		672,656
Total	\$	39,444,658

NOTE 6 – ACCRUED LIABILITIES

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

	General Fund		Special Reserve Fund for Capital Outlay Projects		Non-Major Governmental Funds		Internal Service Funds		Total Governmental Activities	
		Building Fund				District-Wide				
Payroll	\$ 17,129,336	\$ 84,658	\$ -	\$ -	\$ 1,689,884	\$ 91,301	\$ -	\$ -	\$ -	\$ 18,995,179
Construction	-	6,356,661	-	-	-	-	-	-	-	6,356,661
Vendors payable	14,693,476	-	11,461,816	-	2,924,161	2,883,628	-	-	-	31,963,081
Unmatured interest	-	-	-	-	-	-	6,931,683	-	-	6,931,683
Total	\$ 31,822,812	\$ 6,441,319	\$ 11,461,816	\$ -	\$ 4,614,045	\$ 2,974,929	\$ 6,931,683	\$ -	\$ -	\$ 64,246,604

NOTE 7 – UNEARNED REVENUE

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

	Non-Major Governmental Funds		Total Governmental Activities	
	General Fund			
Federal sources	\$ 7,211	\$ -	\$ 7,211	
Local sources	1,433,216	398,428	1,831,644	
Total	\$ 1,440,427	\$ 398,428	\$ 1,838,855	

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

NOTE 8 – LONG-TERM DEBT

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

	Restated			Balance	Balance Due
	Balance			June 30, 2018	In One Year
	July 01, 2017	Additions	Deductions		
Governmental Activities					
General obligation bonds	\$ 331,877,751	\$ 526,157	\$ 1,100,000	\$ 331,303,908	\$ 7,350,000
Unamortized premium	10,742,294	-	660,987	10,081,307	660,987
Unamortized discount	(224,563)	-	(7,485)	(217,078)	(7,485)
Total general obligation bonds	342,395,482	526,157	1,753,502	341,168,137	8,003,502
Capital leases	43,639	-	43,639	-	-
Compensated absences	3,472,441	20,434	-	3,492,875	-
Total OPEB liability	180,350,799	2,303,396	-	182,654,195	-
Net pension liability	486,286,907	63,264,140	-	549,551,047	-
Total	\$ 1,012,549,268	\$ 66,114,127	\$ 1,797,141	\$ 1,076,866,254	\$ 8,003,502

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for capital leases are made in the General Fund.
- Payments for compensated absences are paid from the fund responsible for the employee salary.

A. Measure A & Measure P General Obligation Bonds

On June 8, 2010 the voters of the District approved by more than 55% Measure A which authorizes \$250 million in general obligation bonds for the modernization of district schools. Under state law, the bond money can only be used for acquiring, constructing, or improving school facilities, and furniture and equipment. Bond funds are deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen’s Oversight Committee has been established to assure the appropriate expenditure of Measure A funds. The use of Measure A funds for teacher and administrator salaries or operating expenses unrelated to bond measure projects is strictly prohibited.

On November 8, 2016 the voters of the District approved by more than 55% Measure P which authorizes \$311 million in general obligation bonds to repair/replace roofs, plumbing, and inadequate electrical systems; install air conditioning; upgrade classrooms, science labs, and access to instructional technology; provide classrooms/labs for career technology education that prepares students for college/careers; improve access for individuals with disabilities and earthquake/fire safety and campus security/lighting/cameras. Bond funds will be deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen’s Oversight Committee has been established to assure the appropriate expenditure of Measure P funds. The use of Measure P funds for teacher and administrator salaries or operating expenses unrelated to bond measure projects is strictly prohibited. As of June 30, 2018, \$90 million in General Obligation Bonds have been issued.

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

NOTE 8 – LONG-TERM DEBT (continued)

A. Measure A & Measure P General Obligation Bonds (continued)

The outstanding bonded debt of Garden Grove Unified School District at June 30, 2018 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2017	Additions	Deductions	Outstanding June 30, 2018
Election 2010, Series A	September 23, 2010	August 1, 2021	2.00 - 5.00%	\$ 11,900,160	\$ 6,562,751	\$ 526,157	\$ 1,100,000	\$ 5,988,908
Election 2010, Series B	September 23, 2010	August 1, 2040	5.00 - 6.13%	118,100,000	118,100,000	-	-	118,100,000
Election 2010, Series C	September 25, 2013	August 1, 2040	3.00 - 5.25%	119,995,000	117,215,000	-	-	117,215,000
Election 2016, Series 2017	March 8, 2017	August 1, 2046	3.00 - 5.00%	90,000,000	90,000,000	-	-	90,000,000
					\$ 331,877,751	\$ 526,157	\$ 1,100,000	\$ 331,303,908

B. Election of 2010, Series A & B

On September 23, 2010, Election of 2010, Series A & B of the Measure A bond authorization was issued. Series A consisted of capital appreciation bonds and current interest bonds with an initial par amount of \$11,900,160 with stated interest rates of 2.00% to 5.00% and maturing through August 1, 2021, and Series B which consisted of Federally Taxable – Build America Bonds with an initial par amount of \$118,100,000 with stated interest rates of 5.00% to 6.13%.

The annual requirements to amortize the Series A general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,100,000	\$ 27,500	\$ 1,127,500
2020	732,860	1,267,140	2,000,000
2021	735,750	1,514,250	2,250,000
2022	656,550	1,593,450	2,250,000
Accretion	2,763,748	(2,763,748)	-
Total	\$ 5,988,908	\$ 1,638,592	\$ 7,627,500

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

NOTE 8 – LONG-TERM DEBT (continued)

B. Election of 2010, Series A & B (continued)

The annual requirements to amortize the Series B Build America Bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Subsidy	Total
2019	\$ -	\$ 7,123,720	\$ (2,493,302)	\$ 4,630,418
2020	-	7,123,720	(2,493,302)	4,630,418
2021	-	7,123,720	(2,493,302)	4,630,418
2022	-	7,123,720	(2,493,302)	4,630,418
2023	1,500,000	7,086,220	(2,480,177)	6,106,043
2024 - 2028	12,600,000	33,779,575	(11,822,851)	34,556,724
2029 - 2033	28,200,000	27,719,335	(9,701,767)	46,217,568
2034 - 2038	42,700,000	16,995,005	(5,948,252)	53,746,753
2039 - 2041	33,100,000	3,123,235	(1,093,132)	35,130,103
Total	\$ 118,100,000	\$ 117,198,250	\$ (41,019,387)	\$ 194,278,863

C. Election of 2010, Series C

On September 25, 2013, Election of 2010, Series C of the Measure A bond authorization was issued. Series C consisted of current interest bonds with an initial par amount of \$119,995,000 with stated interest rates of 3.00% to 5.25% and maturing through August 1, 2040.

The annual requirements to amortize the Series C general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ -	\$ 5,989,656	\$ 5,989,656
2020	-	5,989,656	5,989,656
2021	-	5,989,656	5,989,656
2022	175,000	5,986,156	6,161,156
2023	1,450,000	5,946,406	7,396,406
2024 - 2028	13,230,000	28,069,781	41,299,781
2029 - 2033	21,815,000	23,859,109	45,674,109
2034 - 2038	41,295,000	16,184,100	57,479,100
2039 - 2041	39,250,000	3,243,975	42,493,975
Total	\$ 117,215,000	\$ 101,258,495	\$ 218,473,495

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

NOTE 8 – LONG-TERM DEBT (continued)

D. Election of 2016, Series 2017

On March 8, 2017, Election of 2016, Series 2017 of the Measure P bond authorization was issued. Series 2017 consisted of current interest bonds with an initial par amount of \$90,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2046.

The annual requirements to amortize the Series 2017 general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 6,250,000	\$ 3,623,913	\$ 9,873,913
2020	5,460,000	3,331,163	8,791,163
2021	6,090,000	3,042,413	9,132,413
2022	2,300,000	2,832,663	5,132,663
2023	2,625,000	2,709,538	5,334,538
2024 - 2028	4,400,000	12,609,313	17,009,313
2029 - 2033	6,815,000	11,570,509	18,385,509
2034 - 2038	12,305,000	9,983,509	22,288,509
2039 - 2043	20,095,000	6,888,900	26,983,900
2044 - 2047	23,660,000	1,989,400	25,649,400
Total	\$ 90,000,000	\$ 58,581,321	\$ 148,581,321

E. Capital Leases

The District has leases with Xerox & Oce for equipment with options to purchase. The remaining capital lease obligations were paid in full by June 30, 2018.

F. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$3,492,875. This amount is included as part of long-term liabilities in the government-wide financial statements.

G. Other Postemployment Benefits

The District's restated beginning total OPEB liability was \$180,350,799 and increased by \$2,303,396 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was \$182,654,195. See Note 10 for additional information regarding the total OPEB liability.

H. Net Pension Liability

The District's beginning net pension liability was \$486,286,907 and increased by \$63,264,140 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$549,551,047. See Note 11 for additional information regarding the net pension liability.

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

NOTE 9 – FUND BALANCES

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 200,000	\$ -	\$ -	\$ 25,576	\$ 225,576
Stores inventory	909,775	-	-	391,784	1,301,559
Total non-spendable	1,109,775	-	-	417,360	1,527,135
Restricted					
Educational programs	11,607,755	-	-	877,828	12,485,583
Capital projects	-	35,430,176	-	55,828,490	91,258,666
Debt service	-	-	-	17,497,408	17,497,408
All others	-	-	-	13,538,449	13,538,449
Total restricted	11,607,755	35,430,176	-	87,742,175	134,780,106
Committed					
Stabilization	32,916,549	-	-	-	32,916,549
Other commitments	-	-	-	3,020,571	3,020,571
Total committed	32,916,549	-	-	3,020,571	35,937,120
Assigned					
One-time site grants - IT projects	3,196,740	-	-	-	3,196,740
One-time site grants - textbooks	13,825,855	-	-	-	13,825,855
PERS and STRS rate increases	6,280,344	-	-	-	6,280,344
CTEIG special projects	1,781,889	-	-	-	1,781,889
School refurbishing projects	645,470	-	-	-	645,470
Site and department discretionary funds	438,410	-	-	-	438,410
Site LCFF carryover	3,520,873	-	-	-	3,520,873
Panic Button security project	252,911	-	-	-	252,911
MOFIT Chapman project	305,162	-	-	-	305,162
Other assignments	-	-	89,329,917	-	89,329,917
Total assigned	30,247,654	-	89,329,917	-	119,577,571
Unassigned					
Reserve for economic uncertainties	10,972,183	-	-	-	10,972,183
Remaining unassigned	9,377,043	-	-	997,213	10,374,256
Total unassigned	20,349,226	-	-	997,213	21,346,439
Total	\$ 96,230,959	\$ 35,430,176	\$ 89,329,917	\$ 92,177,319	\$ 313,168,371

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 2 percent of General Fund expenditures and other financing uses.

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

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The Garden Grove Unified School District provides a single employer defined benefit other postemployment benefit (OPEB) plan as described below. Additionally, the California State Teachers' Retirement System (CalSTRS) administers a cost-sharing multiple-employer OPEB plan, the Medicare Premium Payment (MPP) Program, as described below. The District reported its total OPEB liability and its' proportionate share of the total OPEB liabilities related to the MPP Program, OPEB expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Total OPEB liability	Deferred outflows related to OPEB	Deferred inflows related to OPEB	OPEB expense
District's OPEB Plan	\$ 180,170,750	\$ 5,219,566	\$ 184,616	\$ 1,591,857
MPP Program	2,483,445	-	52	(463,907)
Total	\$ 182,654,195	\$ 5,219,566	\$ 184,668	\$ 1,127,950

1. District OPEB Plan

A. Plan Description and Benefits Provided

The Garden Grove Unified School District administers a single employer defined benefit OPEB plan. The Garden Grove Unified School District Retiree Benefit Plan (the Plan) provides retiree medical and prescription drug coverage as described below.

Employees are eligible for coverage if they retire from the District and either:

- Have reached age 55 and completed 10 or more years of consecutive District service, or
- Have reached age 50, completed 15 or more years of consecutive District service and qualify for a disability retirement.

Employees meeting the age and service requirements above are eligible for coverage and District paid retiree benefits described below until reaching age 65.

Certificated employees who retire from the District under the applicable retirement system (PERS or STRS), but who do not satisfy the age and service requirements above are also eligible to continue their District coverage, pursuant to the requirements of AB528. These retirees have access to District plan coverage for their lifetime, so long as they pay 100% of the applicable premiums.

No other retirees are permitted to continue coverage under the District's plans after age 65.

District plans available: The District offers three basic plans for its employees and retirees: a self-funded PPO/Rx plan, a self-funded EPO/Rx plan and a fully insured HMO plan through United Healthcare. Supplemental plans for retirees eligible for Medicare are also provided.

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

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

1. District OPEB Plan (*continued*)

A. Plan Description and Benefits Provided (*continued*)

Benefits paid by the District: Retirees under age 65 who satisfy the age and service requirements above are entitled to subsidized coverage under the medical/prescription drug plans provided by the District. Qualifying retirees contribute \$450 per year for single coverage or \$900 per year for retiree and spouse.

The District pays the remaining costs for retiree coverage until the retiree reaches age 65.

B. Contributions

The contribution requirements of Plan members and the Garden Grove Unified School District are established and may be amended by the Garden Grove Unified School District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

C. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	267
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	3,189
Total number of participants**	<u>3,456</u>

*Information not provided

**As of the June 30, 2016 valuation date

D. Total OPEB Liability

The Garden Grove Unified School District’s total OPEB liability of \$180,170,850 was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2016.

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

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

1. District OPEB Plan (continued)

E. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Economic assumptions:

Inflation	2.75%
Salary increases	3.25%
Investment rate of return	3.53%
Healthcare cost trend rates	7.50%

Non-economic assumptions:

Mortality:

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

Retirement rates:

Date hired by the District	CalPERS	CalSTRS
Hired prior to 1/1/2013	2% at 55	2% at 60
Hired on or after 1/1/2013 (prior member, "Classic")	2% at 55	2% at 60
Hired on or after 1/1/2013 (new member, "PEPRA")	2% at 62	2% at 62

The actuarial assumptions used in the June 30, 2016 valuation were based on 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements.

The District is currently financing its OPEB liability on a pay-as-you-go basis. The discount rate used in this valuation is based on the Bond Buyer 20 Year High Grade Index. As of the beginning and end of the Measurement Period, this index requires use of discount rates of 2.85% as of June 30, 2016 and 3.53% as of June 30, 2017. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

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

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

1. District OPEB Plan (continued)

F. Changes in Total OPEB Liability

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 11,840,324
Interest on total OPEB liability	5,341,080
Changes of assumptions	(10,554,598)
Benefits payments	<u>(4,044,120)</u>
Net change in total OPEB liability	2,582,686
Total OPEB liability - beginning	<u>177,588,064</u>
Total OPEB liability - ending	<u>\$ 180,170,750</u>
Covered payroll	\$ 299,047,534
District's total OPEB liability as a percentage of covered payroll	60.2%

G. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Garden Grove Unified School District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13 percent) or one percentage point higher (4.13 percent) than the current discount rate:

	1% Decrease	Valuation Discount Rate	1% Increase
	(2.13%)	(3.13%)	(4.13%)
Total OPEB liability	\$ 197,758,758	\$ 180,170,750	\$ 163,821,086

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

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

1. District OPEB Plan (continued)

H. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Garden Grove Unified School District, as well as what the District’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current healthcare cost trend rate:

	Valuation Trend		
	1% Decrease (6.50%)	Rate (7.50%)	1% Increase (8.50%)
Total OPEB liability	\$ 156,814,516	\$ 180,170,750	\$ 207,947,887

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

For the fiscal year ended June 30, 2018, the Garden Grove Unified School District recognized OPEB expense of \$1,591,857. At June 30, 2018, the Garden Grove Unified School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 184,616
District contributions subsequent to the measurement date	5,219,566	-
	<u>\$ 5,219,566</u>	<u>\$ 184,616</u>

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

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

1. District OPEB Plan (continued)

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

The \$5,219,566 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 16,925
2020	16,925
2021	16,925
2022	16,925
2023	16,925
2024	99,991
	<u>\$ 184,616</u>

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

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

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

2. MPP Program

A. Plan Description and Contribution Information

The California State Teachers’ Retirement System (CalSTRS) administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. The postemployment benefit plan component is the Medicare Premium Payment (MPP) Program. The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF). The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the STRP DB Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A.

The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis. Medicare Part A premium rates for fiscal year 2016 -17 were as follows:

Medicare Part A Premium Rates ¹	
July 1, 2016 to December 31, 2016	\$411
January 1, 2017 to June 30, 2017	\$413

¹ Individuals with 30-39 quarters of Medicare covered employment pay a reduced monthly premium rate, which was \$226 and \$227 for the period of July 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017, respectively.

Part A and B late enrollment penalties are generally 10 percent of the respective monthly premiums rates; however, the fees charged to individual participants may be higher based on certain income thresholds.

Based on the published premium rates during FY 2016–17, Part A late enrollment surcharges were \$41.10 and \$41.30 for the period of July 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017, respectively. Part B late enrollment surcharges were \$12.18 and \$13.40 for the period of July 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017, respectively.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be pre-determined.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly employer contributions. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program. Total District Medicare Premiums and Surcharges paid to the MPP Program for fiscal year 2016-17 were \$170,770.

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

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

2. MPP Program (continued)

B. Net OPEB Liability

The Garden Grove Unified School District’s net MPP Program OPEB liability of \$2,483,445 was measured as of June 30, 2017 by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total OPEB liability to June 30, 2017. The District’s proportion of the net OPEB liability was based on a projection of the District’s long-term share of contributions to the MPP Program relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.590 percent.

C. Actuarial Assumptions and Other Inputs

The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Costs Trend Rate ¹	3.70%	3.70%
Medicare Part B Premium Costs Trend Rate ¹	4.10%	4.10%

¹ The assumed increases in the Medicare Part A and Part B Cost Trend Rates vary by year, however; the increases are approximately equivalent to a 3.7 percent and 4.1 percent increase each year for Medicare Part A and Part B, respectively.

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members’ age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program.

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members.

The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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

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

2. MPP Program (*continued*)

C. Actuarial Assumptions and Other Inputs (*continued*)

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Non-economic assumptions:

Mortality:

Pre-retirement	RP-2014 Employee Mortality, without projection
Post-retirement	RP-2014 Healthy Annuitant Mortality, without projection

Retirement rates:

Age	Percent Retiring*
55-59	10.0%
60	25.0%
61	50.0%
62	20.0%
63	30.0%
64	80.0%
65	100.0%

*Of those having met eligibility for District-paid benefits. The percentage refers to the probability that an active employee reaching the stated age will retire within the following year.

The actuarial assumptions used in the June 30, 2017 valuation were based on a review of plan experience during the period July 1, 2016 to June 30, 2017.

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

The following presents the net OPEB liability of the Garden Grove Unified School District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current discount rate:

	1% Decrease (2.58%)	Valuation Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability	\$ 2,749,346	\$ 2,483,445	\$ 2,224,799

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

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

2. MPP Program (continued)

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

The following presents the net OPEB liability of the Garden Grove Unified School District, as well as what the District’s net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (2.70 percent) or one percentage point higher (4.70 percent) than the current healthcare cost trend rate:

	Valuation Trend		
	1% Decrease (2.70%)	Rate (3.70%)	1% Increase (4.70%)
	<u> </u>	<u> </u>	<u> </u>
Net OPEB liability	\$ 2,244,172	\$ 2,483,445	\$ 2,720,327

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

For the fiscal year ended June 30, 2018, the Garden Grove Unified School District recognized OPEB expense of \$(149,210). At June 30, 2018, the Garden Grove Unified School District reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 52
	<u>\$ 52</u>

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

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

2. MPP Program (*continued*)

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

Amounts reported as deferred inflows of resources related to OPEB will be recognized in the District’s OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 13
2020	13
2021	13
2022	13
	<u>\$ 52</u>

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

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

NOTE 11 – PENSION PLANS

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

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 420,405,689	\$ 125,711,610	\$ 26,494,176	\$ 43,646,842
PERS Pension	129,145,358	45,905,117	1,520,527	19,739,279
Total	<u>\$ 549,551,047</u>	<u>\$ 171,616,727</u>	<u>\$ 28,014,703</u>	<u>\$ 63,386,121</u>

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.
2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

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

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$34,937,447 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$20,225,322 to CalSTRS.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 420,405,689
State's proportionate share of the net pension liability associated with the District	248,710,480
Total	\$ 669,116,169

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.455 percent, which was a decrease of 0.012 percent from its proportion measured as of June 30, 2016.

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

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$43,646,842. In addition, the District recognized pension expense and revenue of \$7,148,275 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 11,196,575
Differences between expected and actual experience	1,554,701	7,332,552
Changes in assumptions	77,885,063	-
Changes in proportion and differences between District contributions and proportionate share of contributions	11,334,399	7,965,049
District contributions subsequent to the measurement date	34,937,447	-
	<u>\$ 125,711,610</u>	<u>\$ 26,494,176</u>

The \$34,937,447 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 15,898,875	\$ 12,274,966
2020	15,898,875	(4,086,557)
2021	15,898,875	1,952,911
2022	15,898,872	12,922,760
2023	13,938,707	2,102,587
2024	13,239,959	1,327,509
	<u>\$ 90,774,163</u>	<u>\$ 26,494,176</u>

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

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

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

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

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

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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

*20-year geometric average

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

NOTE 11 – PENSION PLANS (*continued*)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 617,289,019	\$ 420,405,689	\$ 260,621,524

Pension Plan Fiduciary Net Position

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

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS)

Plan Description

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

Benefits Provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were \$11,532,808 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$129,145,358 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District’s proportion was 0.541 percent, which was a decrease of 0.007 percent from its proportion measured as of June 30, 2016.

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

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$19,739,279. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 4,467,546	\$ -
Differences between expected and actual experience	4,626,746	-
Changes in assumptions	18,863,711	1,520,527
Changes in proportion and differences between District contributions and proportionate share of contributions	6,414,306	-
District contributions subsequent to the measurement date	11,532,808	-
	<u>\$ 45,905,117</u>	<u>\$ 1,520,527</u>

The \$11,532,808 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 11,878,875	\$ 1,520,527
2020	14,736,243	-
2021	10,203,618	-
2022	(2,446,427)	-
	<u>\$ 34,372,309</u>	<u>\$ 1,520,527</u>

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

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

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

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

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

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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

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

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 190,014,207	\$ 129,145,358	\$ 78,649,551

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

NOTE 11 – PENSION PLANS (continued)

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

Pension Plan Fiduciary Net Position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

C. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of \$26,356,073.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in a joint powers authority (JPA), the Southern California Schools Regional Liability Excess Fund (ReLiEF). The relationship between the District and the JPA is such that the JPA is not component unit of the District for financial reporting purposes. ReLiEF arranges for and provides self-funded excess liability and property coverage for approximately seventy public educational agencies with combined average daily attendance of 1,107,091 and property values of approximately \$27.46 billion.

ReLiEF arranges for and provides property and liability insurance for approximately seventy members consisting of both public educational agencies and other JPA’s. ReLiEF is governed by a board consisting of a representative from each member. The board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

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

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 13, for claims in excess of insured amounts for workers’ compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year.

The District retains the risk of loss under the California Education Code Section 39602 for general liability up to \$50,000, commercial property up to \$25,000, worker’s compensation claims up to \$500,000 and employee medical benefit claims. The District has obtained insurance coverage that will cover claims within the following ranges to supplement its risk retention program:

Worker’s compensation	\$500,000 per claim up to	\$25,000,000
Property claims	\$25,000 per claim up to	\$250,000,000
General liability	\$50,000 per claim up to	\$25,000,000

Related claims paid for the year ended June 30, 2018 were \$2,754,437 for worker’s compensation claims, \$46,626,949 for medical and dental claims, and \$7,150,883 for catastrophic claims, bringing total claim payments to \$56,532,269. These amounts have been recorded as self-insured losses in the Self-Insurance Internal Service Fund. The District has adjusted the outstanding claims payable based on information provided by their claim administrator relating to claims incurred but not reported (IBNR) to bring the total liability for insurance claims at June 30, 2018 to \$15,282,809.

Claims payable and other liabilities in fiscal year 2018 were as follows:

	General Liability	Workers' Compensation	Health & Welfare	Total
Liability Balance, July 01, 2017	\$ 473,423	\$ 6,955,053	\$ 8,348,080	\$ 15,776,556
Claims & changes in estimates	-	2,596,570	46,291,069	48,887,639
Claims payments	-	(2,754,437)	(46,626,949)	(49,381,386)
Liability Balance, June 30, 2018	<u>\$ 473,423</u>	<u>\$ 6,797,186</u>	<u>\$ 8,012,200</u>	<u>\$ 15,282,809</u>

Assets available to pay claims at June 30, 2018	<u>\$ 178,889,395</u>
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GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 15 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred outflows related to pensions was \$171,616,727 and total deferred inflows related to pensions was \$28,014,703.

B. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred outflows related to other postemployment benefits was \$5,219,566 and total deferred inflows related to other postemployment benefits was \$184,668.

NOTE 16 – RESTATEMENT OF FUND BALANCE/NET POSITION

The beginning fund balance of the Cafeteria Fund has been restated in order to properly state the unearned revenue balance.

Additionally, the beginning net position of Governmental Activities and the Internal Service Fund has been restated in order to record the District’s total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The effect on beginning fund balance/net position is presented as follows:

	Cafeteria Fund	
Fund Balance - Beginning, as Previously Reported	\$ 13,785,686	
Restatement	997,213	
Fund Balance - Beginning, as Restated	<u>\$ 14,782,899</u>	
	Internal Service	Governmental
	Fund	Activities
Net Position - Beginning, as Previously Reported	\$ 59,107,886	\$ 584,873,009
Restatement	(75,120,225)	(74,123,012)
Net Position - Beginning, as Restated	<u>\$ (16,012,339)</u>	<u>\$ 510,749,997</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 425,806,340	\$ 425,036,957	\$ 425,036,957	\$ -
Federal sources	35,050,260	36,717,707	30,182,062	(6,535,645)
Other state sources	54,583,816	78,147,032	76,846,767	(1,300,265)
Other local sources	4,772,695	10,619,908	9,350,540	(1,269,368)
Total Revenues	520,213,111	550,521,604	541,416,326	(9,105,278)
EXPENDITURES				
Certificated salaries	238,621,742	253,432,612	242,747,165	10,685,447
Classified salaries	85,074,280	92,540,207	85,135,849	7,404,358
Employee benefits	113,222,885	133,538,611	125,759,603	7,779,008
Books and supplies	60,784,513	45,461,664	15,443,115	30,018,549
Services and other operating expenditures	48,063,113	54,878,170	37,617,571	17,260,599
Capital outlay	6,077,602	18,132,842	8,199,716	9,933,126
Other outgo				
Excluding transfers of indirect costs	7,676,522	8,167,120	7,392,129	774,991
Transfers of indirect costs	(1,289,356)	(1,284,282)	(1,038,197)	(246,085)
Total Expenditures	558,231,301	604,866,944	521,256,951	83,609,993
Excess (Deficiency) of Revenues Over Expenditures	(38,018,190)	(54,345,340)	20,159,375	74,504,715
Other Financing Sources (Uses)				
Transfers in	-	873,738	873,738	-
Transfers out	(27,356,819)	(27,364,453)	(27,352,183)	12,270
Net Financing Sources (Uses)	(27,356,819)	(26,490,715)	(26,478,445)	12,270
NET CHANGE IN FUND BALANCE	(65,375,009)	(80,836,055)	(6,319,070)	74,516,985
Fund Balance - Beginning	92,493,706	102,550,029	102,550,029	-
Fund Balance - Ending	\$ 27,118,697	\$ 21,713,974	\$ 96,230,959	\$ 74,516,985

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS – DISTRICT
OPEB PLAN
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 11,840,324
Interest on total OPEB liability	5,341,080
Changes of assumptions	(10,554,598)
Benefits payments	<u>(4,044,120)</u>
Net change in total OPEB liability	2,582,686
Total OPEB liability - beginning	<u>177,588,064</u>
Total OPEB liability - ending	<u><u>\$ 180,170,750</u></u>
Covered payroll	\$ 299,047,534
District's total OPEB liability as a percentage of covered payroll	60.2%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS – MPP
 PROGRAM
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
District's proportion of the collective net MPP Program OPEB liability	0.590%
District's proportionate share of the collective net MPP Program OPEB liability	\$ 2,483,445
District's covered payroll	\$ 242,116,771
District's proportionate share of the collective net MPP Program OPEB liability as a percentage of its covered payroll	0.830%
MPP Program fiduciary net position as a percentage of the total OPEB liability	0.010%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.455%	0.467%	0.461%	0.442%
District's proportionate share of the net pension liability	\$ 420,405,689	\$ 378,077,780	\$ 310,648,255	\$ 258,554,380
State's proportionate share of the net pension liability associated with the District	<u>248,710,480</u>	<u>215,264,625</u>	<u>164,298,242</u>	<u>156,126,298</u>
Total	<u>\$ 669,116,169</u>	<u>\$ 593,342,405</u>	<u>\$ 474,946,497</u>	<u>\$ 414,680,678</u>
District's covered payroll	\$ 244,605,588	\$ 236,302,007	\$ 212,147,915	\$ 204,197,952
District's proportionate share of the net pension liability as a percentage of its covered payroll	171.9%	160.0%	146.4%	126.6%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

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

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.541%	0.548%	0.532%	0.508%
District's proportionate share of the net pension liability	\$ 129,145,358	\$ 108,209,127	\$ 78,388,711	\$ 57,680,951
District's covered payroll	\$ 69,365,301	\$ 65,949,600	\$ 59,085,462	\$ 53,346,749
District's proportionate share of the net pension liability as a percentage of its covered payroll	186.2%	164.1%	132.7%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

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

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 34,937,447	\$ 30,771,385	\$ 25,355,206	\$ 18,838,736
Contributions in relation to the contractually required contribution*	(34,937,447)	(30,771,385)	(25,355,206)	(18,838,736)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 242,116,771	\$ 244,605,588	\$ 236,302,007	\$ 212,147,915
Contributions as a percentage of covered payroll	14.43%	12.58%	10.73%	8.88%

*Amounts do not include on-behalf contributions

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 11,532,808	\$ 9,633,454	\$ 7,813,047	\$ 6,954,949
Contributions in relation to the contractually required contribution	(11,532,808)	(9,633,454)	(7,813,047)	(6,954,949)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 74,256,687	\$ 69,365,301	\$ 65,949,600	\$ 59,085,462
Contributions as a percentage of covered payroll	15.53%	13.89%	11.85%	11.77%

See accompanying note to required supplementary information.

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

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

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

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

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

Changes in Benefit Terms

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

Changes in Assumptions

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

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

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code, as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Employee benefits	\$ 133,538,611	\$ 125,759,603	\$ (7,779,008)
Other outgo			
Transfers of indirect costs	\$ (1,284,282)	\$ (1,038,197)	\$ 246,085

**SUPPLEMENTARY
INFORMATION**

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE
 FOR THE YEAR ENDED JUNE 30, 2018**

Garden Grove Unified School District is located in Orange County, California. The District was established on July 1, 1965 and is comprised of an area of approximately 28 square miles. There were no changes in the boundaries of the District during the current year. The District is currently operating 45 elementary schools, 10 intermediate schools, 7 high schools, 1 continuation high school, 2 special education schools, 1 adult education/career technical education center, and 1 preschool family campus.

GOVERNING BOARD

Member	Office	Term Expires
Bob Harden	President	November, 2018
Lan Quoc Nguyen	Vice President	November, 2018
Walter Muneton	Member	November, 2020
Dina L. Nguyen	Member	November, 2020
Teri Rocco	Member	November, 2020

DISTRICT ADMINISTRATORS

Dr. Gabriela Mafi
Superintendent

Mr. Rick Nakano
Assistant Superintendent, Business Services

Ms. Sara Wescott
Assistant Superintendent, Elementary Education

Ms. Kelly McAmis
Assistant Superintendent, Secondary Education

Ms. Joli Armitage
Assistant Superintendent, Personnel Services

Ms. Valerie Shedd
Assistant Superintendent, Special Education and Student Services

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

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 13,459,508
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	44,867
Title II, Part A, Teacher Quality	84.367	14341	2,624,618
Title III			
Title III, English Learner Student Program	84.365	14346	2,032,595
Title III, Immigrant Education Program	84.365	15146	186,999
Subtotal Title III			<u>2,219,594</u>
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	469,994
Adult Education			
Adult Education: Adult Basic Education & ESL	84.002A	14508	756,598
Adult Education: Adult Secondary Education	84.002	13978	65,052
Adult Education: English Literacy and Civics Education	84.002A	14109	151,854
Subtotal Adult Education			<u>973,504</u>
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	7,510,062
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	21,555
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	495,191
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	152,877
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE3-4-5)	84.027A	13682	503,918
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	2,232
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	21,097
Subtotal Special Education Cluster			<u>8,706,932</u>
IDEA Early Intervention Grants, Part C	84.181	23761	110,635
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	381,323
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	115,848
Total U. S. Department of Education			<u>29,106,823</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	3,281,892
National School Lunch Program	10.555	13391	13,204,088
Meal Supplements	10.555	*	598,911
USDA Commodities	10.555	*	1,636,454
Summer Food Service Program for Children	10.559	13004	206,417
Subtotal Child Nutrition Cluster			<u>18,927,762</u>
CACFP Claims - Centers and Family Day Care	10.558	13393	141,164
Fresh Fruit and Vegetable Program	10.582	14968	269,773
Total U. S. Department of Agriculture			<u>19,338,699</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Now is the Time (NITT) Advancing Wellness & Resilience in Education	93.243	15289	587,478
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	997,752
Total U. S. Department of Health & Human Services			<u>1,585,230</u>
Total Federal Expenditures			<u>\$ 50,030,752</u>

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

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

	Second Period Report #B9677D99	Annual Report #16B9FBFC
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	11,624.03	11,654.71
Extended Year Special Education	21.75	21.75
Special Education - Nonpublic Schools	7.90	7.38
Extended Year Special Education - Nonpublic Schools	0.92	0.92
Total TK/K through Third	11,654.60	11,684.76
Fourth through Sixth		
Regular ADA	9,617.17	9,625.62
Extended Year Special Education	18.35	18.35
Special Education - Nonpublic Schools	6.39	6.77
Extended Year Special Education - Nonpublic Schools	0.54	0.54
Total Fourth through Sixth	9,642.45	9,651.28
Seventh through Eighth		
Regular ADA	6,656.38	6,655.35
Extended Year Special Education	10.47	10.47
Special Education - Nonpublic Schools	1.85	1.73
Extended Year Special Education - Nonpublic Schools	0.17	0.17
Total Seventh through Eighth	6,668.87	6,667.72
Ninth through Twelfth		
Regular ADA	13,675.13	13,632.53
Extended Year Special Education	39.05	39.05
Special Education - Nonpublic Schools	19.79	18.01
Extended Year Special Education - Nonpublic Schools	2.50	2.50
Total Ninth through Twelfth	13,736.47	13,692.09
TOTAL SCHOOL DISTRICT	41,702.39	41,695.85

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

Grade Level	Minutes Requirement	2017-18	Number of Days	Status
		Actual Minutes		
Kindergarten	36,000	54,890	180	Complied
Grade 1	50,400	54,890	180	Complied
Grade 2	50,400	54,890	180	Complied
Grade 3	50,400	54,890	180	Complied
Grade 4	54,000	54,890	180	Complied
Grade 5	54,000	54,890	180	Complied
Grade 6	54,000	54,890	180	Complied
Grade 7	54,000	55,660	180	Complied
Grade 8	54,000	55,660	180	Complied
Grade 9	64,800	64,848	180	Complied
Grade 10	64,800	64,848	180	Complied
Grade 11	64,800	64,848	180	Complied
Grade 12	64,800	64,848	180	Complied

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 559,733,699	\$ 542,290,064	\$ 540,261,688	\$ 535,127,476
Expenditures And Other Financing Uses	626,666,836	548,609,134	535,613,943	533,291,813
Net change in Fund Balance	\$ (66,933,137)	\$ (6,319,070)	\$ 4,647,745	\$ 1,835,663
Ending Fund Balance	\$ 29,297,822	\$ 96,230,959	\$ 102,550,029	\$ 97,902,284
Available Reserves*	\$ 12,577,194	\$ 20,349,226	\$ 29,967,520	\$ 42,241,646
Available Reserves As A Percentage Of Outgo	2.01%	3.71%	5.59%	7.92%
Long-term Debt	\$ 1,068,862,752	\$ 1,076,866,254	\$ 933,569,591	\$ 731,734,028
Average Daily Attendance At P-2	40,189	41,702	42,854	43,838

The General Fund balance has decreased by \$1,671,325 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$66,933,137. For a District this size, the State recommends available reserves of at least 2% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by \$345,132,226 over the past two years.

Average daily attendance has decreased by 2,136 ADA over the past two years. Additional decline of 1,513 ADA is anticipated during the 2018-19 fiscal year.

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	Cafeteria Fund
June 30, 2018, annual financial and budget report fund balance	\$ 13,955,809
Adjustments and reclassifications:	
Decrease in unearned revenue	997,213
Net adjustments and reclassifications	<u>997,213</u>
June 30, 2018, audited financial statement fund balance	<u>\$ 14,953,022</u>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS								
Cash and investments	\$ 368,070	\$ 578,599	\$ 13,489,574	\$ 3,305,673	\$ 30,798,662	\$ 27,054,330	\$ 17,460,486	\$ 93,055,394
Accounts receivable	525,171	1,140,833	3,485,350	4,695	279,253	36,001	36,922	5,508,225
Due from other funds	154,340	21,290	58,802	-	190	112,130	-	346,752
Stores inventory	-	-	391,784	-	-	-	-	391,784
Total Assets	\$ 1,047,581	\$ 1,740,722	\$ 17,425,510	\$ 3,310,368	\$ 31,078,105	\$ 27,202,461	\$ 17,497,408	\$ 99,302,155
LIABILITIES								
Accrued liabilities	\$ 157,715	\$ 486,019	\$ 2,067,373	\$ 88,715	\$ 431,387	\$ 1,382,836	\$ -	\$ 4,614,045
Due to other funds	114,524	826,810	332,094	201,082	637,853	-	-	2,112,363
Unearned revenue	-	325,407	73,021	-	-	-	-	398,428
Total Liabilities	272,239	1,638,236	2,472,488	289,797	1,069,240	1,382,836	-	7,124,836
FUND BALANCES								
Non-spendable	-	-	417,360	-	-	-	-	417,360
Restricted	775,342	102,486	13,538,449	-	30,008,865	25,819,625	17,497,408	87,742,175
Committed	-	-	-	3,020,571	-	-	-	3,020,571
Unassigned	-	-	997,213	-	-	-	-	997,213
Total Fund Balances	775,342	102,486	14,953,022	3,020,571	30,008,865	25,819,625	17,497,408	92,177,319
Total Liabilities and Fund Balance	\$ 1,047,581	\$ 1,740,722	\$ 17,425,510	\$ 3,310,368	\$ 31,078,105	\$ 27,202,461	\$ 17,497,408	\$ 99,302,155

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES								
LCFF sources	\$ 92,548	\$ -	\$ -	\$ 4,000,000	\$ -	\$ -	\$ -	\$ 4,092,548
Federal sources	973,504	-	19,338,698	-	-	-	2,325,004	22,637,206
Other state sources	1,857,895	5,359,678	1,309,987	-	-	-	159,574	8,687,134
Other local sources	618,442	532,815	2,813,622	32,788	9,392,922	439,953	20,479,769	34,310,311
Total Revenues	3,542,389	5,892,493	23,462,307	4,032,788	9,392,922	439,953	22,964,347	69,727,199
EXPENDITURES								
Current								
Instruction	1,733,327	3,647,749	-	-	-	-	-	5,381,076
Instruction-related services								
Instructional supervision and administration	31,276	580,904	-	-	-	-	-	612,180
Instructional library, media, and technology	69,742	14,112	-	-	-	-	-	83,854
School site administration	1,074,753	447,853	-	-	-	-	-	1,522,606
Pupil services								
Food services	-	-	22,523,734	-	-	-	-	22,523,734
All other pupil services	147,119	767,267	-	-	-	-	-	914,386
General administration								
All other general administration	111,725	159,102	767,370	-	59,454	-	-	1,097,651
Plant services	246,384	341,778	-	547,763	114,411	-	-	1,250,336
Facilities acquisition and maintenance	-	247,948	1,080	3,727,223	5,123,359	21,921,309	-	31,020,919
Debt service								
Principal	-	-	-	-	-	-	1,100,000	1,100,000
Interest and other	-	-	-	-	-	-	16,426,765	16,426,765
Total Expenditures	3,414,326	6,206,713	23,292,184	4,274,986	5,297,224	21,921,309	17,526,765	81,933,507
Excess (Deficiency) of Revenues Over Expenditures	128,063	(314,220)	170,123	(242,198)	4,095,698	(21,481,356)	5,437,582	(12,206,308)
Other Financing Sources (Uses)								
Transfers in	-	352,183	-	-	-	-	-	352,183
Transfers out	-	-	-	(201,082)	-	-	-	(201,082)
Net Financing Sources (Uses)	-	352,183	-	(201,082)	-	-	-	151,101
NET CHANGE IN FUND BALANCE	128,063	37,963	170,123	(443,280)	4,095,698	(21,481,356)	5,437,582	(12,055,207)
Fund Balance - Beginning, as Restated	647,279	64,523	14,782,899	3,463,851	25,913,167	47,300,981	12,059,826	104,232,526
Fund Balance - Ending	\$ 775,342	\$ 102,486	\$ 14,953,022	\$ 3,020,571	\$ 30,008,865	\$ 25,819,625	\$ 17,497,408	\$ 92,177,319

See accompanying note to supplementary information.

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

NOTE 1 – PURPOSE OF SCHEDULES

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 Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

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

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 52,819,268
Medi-Cal Billing Option	93.778	(463,512)
Build America Bonds Interest Subsidy	*	<u>(2,325,004)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$50,030,752</u>

*CFDA Number not applicable

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.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, *continued*
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES (*continued*)

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

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 Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Independent Auditors' Report

Governing Board
Garden Grove Unified School District
Garden Grove, 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 Garden Grove Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Garden Grove Unified School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

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

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

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

Purpose of this Report

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

Christy White Associates

San Diego, California
December 14, 2018

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Independent Auditors' Report

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on Compliance for Each Major Federal Program

We have audited Garden Grove Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Garden Grove Unified School District's major federal programs for the year ended June 30, 2018. Garden Grove Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Garden Grove Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Christy White Associates

San Diego, California
December 14, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on State Compliance

We have audited Garden Grove Unified School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Garden Grove Unified School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Garden Grove Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Garden Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Garden Grove Unified School District's compliance with those requirements.

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Opinion on State Compliance

In our opinion, Garden Grove Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

(continued on next page)

Procedures Performed (continued)

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
December 14, 2018

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low - Income and Neglected</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>1,500,923</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

STATE AWARDS

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no financial statement findings for the year ended June 30, 2018.

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

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2018.

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

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

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

There were no state award findings or questioned costs for the year ended June 30, 2018.

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

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