

# GARDEN GROVE UNIFIED SCHOOL DISTRICT

AUDIT REPORT  
JUNE 30, 2014

San Diego

Los Angeles

San Francisco  
Bay Area

christywhite  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 TABLE OF CONTENTS  
 FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL SECTION**

Independent Auditors' Report .....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position .....	21
Statement of Activities .....	22
Fund Financial Statements	
Governmental Funds – Balance Sheet.....	23
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	24
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	25
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	26
Proprietary Funds – Statement of Net Position .....	28
Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Position.....	29
Proprietary Funds – Statement of Cash Flows.....	30
Fiduciary Funds – Statement of Net Position.....	31
Notes to Financial Statements .....	32

**REQUIRED SUPPLEMENTARY INFORMATION**

General Fund – Budgetary Comparison Schedule .....	63
Schedule of Funding Progress .....	64
Notes to Required Supplementary Information.....	65

**SUPPLEMENTARY INFORMATION**

Local Educational Agency Organization Structure .....	66
Schedule of Expenditures of Federal Awards .....	67
Schedule of Average Daily Attendance (ADA).....	68
Schedule of Instructional Time.....	69
Schedule of Financial Trends and Analysis.....	70
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	71
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....	74
Notes to Supplementary Information.....	75

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
TABLE OF CONTENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

---

**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* ..... 76  
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by OMB Circular A-133 ..... 78  
Report on State Compliance..... 80

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditors' Results ..... 83  
Financial Statement Findings..... 84  
Federal Award Findings and Questioned Costs ..... 85  
State Award Findings and Questioned Costs..... 86  
Summary Schedule of Prior Audit Findings ..... 89

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

### Corporate Office:

2727 Camino Del Rio South  
Suite 219  
San Diego, CA 92108

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California  
State Board of Accountancy*

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, 2014, 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.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 20, the budgetary comparison information on page 63, and the schedule of funding progress on page 64 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 U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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 15, 2014 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garden Grove Unified School District's internal control over financial reporting and compliance.

*Christy White Associates*

San Diego, California  
December 15, 2014

## **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, 2014. It should be read in conjunction with the District's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The District's total net position increased 9.25% over 2012-2013 (Table 1).
- Overall revenues were \$497.1 million, \$63.2 million more than expenses (Table 2).
- The net cost of basic programs increased 27.51% to \$281.5 million (Table 3).
- The District invested \$55,679 in copiers throughout seven (7) schools.
- A transportation GPS system was purchased at a cost of \$58,412.
- Information technology improvements totaled \$661,316. Of this \$57,745 was an E-Rate donation.
- The District invested \$402,699 for a district wide VDI project.
- Warehouse purchases included a commercial washer in the amount of \$19,963.
- Purchases for Food Services included the following capitalized items:
  - o One (1) cargo van - \$25,406
  - o Four (4) freezers - \$70,616
  - o Seven (7) ovens - \$64,544
  - o Two (2) stainless steel sinks - \$32,498
  - o Two (2) utility counters - \$21,964
- Maintenance and Operations equipment purchases and improvements include:
  - o Asphalt repair equipment - \$29,417
  - o Roof repairs at eight (8) sites - \$475,088
  - o Two (2) public works cabling projects completed at two (2) sites totaled \$584,441. Of this \$520,152 was an E-Rate donation.
- Facilities Projects include:
  - o Work in Progress for modernization projects totaled \$40.8 million at various school sites. The work order system captured \$657,633 of these costs.
  - o Completed modernization projects at multiple sites totaled \$49.3 million.
  - o Interim Housing costs totaled \$630,476.
  - o Improvements to existing portables at various sites totaled \$783,737.



**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

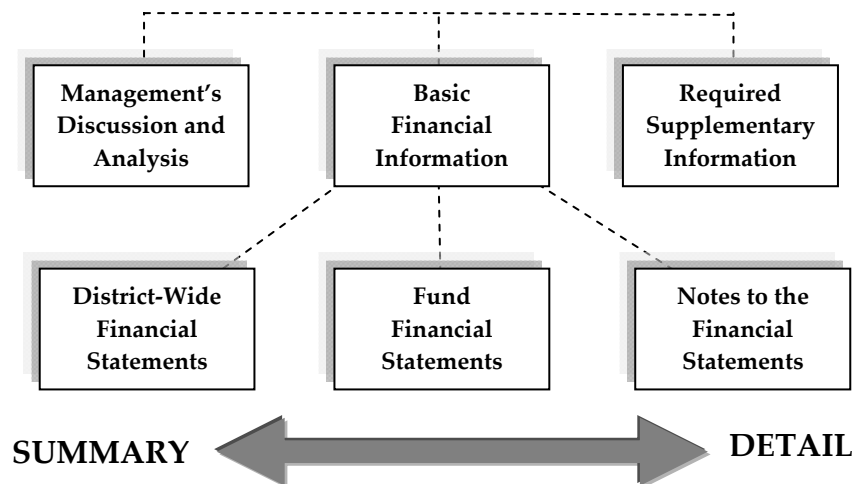
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements present different views of the District:

- 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.

**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, 2014**

**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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses &amp; Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Changes in Net Position</li> </ul>
<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, 2014**

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**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, 2014**

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**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, 2014**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Position.** The District's net position as of June 30, 2014 was \$727,419,063 reflecting an increase of 9.24% since June 30, 2013. (See Table 1)

**Table 1**

**Governmental Activities**

	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>
<b>ASSETS</b>			
Current and other assets	\$ 659,393,849	\$ 542,187,014	21.62%
Capital assets	463,304,124	374,930,715	23.57%
<b>Total Assets</b>	<b>1,122,697,973</b>	<b>917,117,729</b>	<b>22.42%</b>
<b>LIABILITIES</b>			
Current liabilities	67,404,840	59,552,091	13.19%
Long-term liabilities	327,874,070	191,658,857	71.07%
<b>Total Liabilities</b>	<b>395,278,910</b>	<b>251,210,948</b>	<b>57.35%</b>
<b>NET POSITION</b>			
Net investment in capital assets	392,561,142	340,781,535	15.19%
Restricted	82,164,901	85,334,150	-3.71%
Unrestricted	252,693,020	239,791,096	5.38%
<b>Total Net Position</b>	<b>\$ 727,419,063</b>	<b>\$ 665,906,781</b>	<b>9.24%</b>

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.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Changes in net position.** The District's total revenues increased 0.02% to \$497,144,365. (See Table 2) Property taxes and state formula aid accounted for most of the District's revenue, contributing about 68.12% of every dollar raised. (See Figure A-3.) Another 29.38% 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 increased 5.60% to \$433,988,445. The District's expenses are predominantly related to educating and caring for students (81.13%). (See Figure A-4.) The purely administrative activities of the District accounted for 3.00% of total costs.

Total revenues surpassed expenses by \$63,155,920.

**Table 2  
Governmental Activities**

	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 6,402,353	\$ 7,480,083	-14.41%
Operating grants and contributions	101,660,339	108,159,445	-6.01%
Capital grants and contributions	44,382,343	74,610,571	-40.51%
General revenues			
Property taxes	96,634,324	113,453,246	-14.82%
Unrestricted federal and state aid	242,006,840	186,817,647	29.54%
Other	6,058,166	6,541,517	-7.39%
<b>Total Revenues</b>	<b>497,144,365</b>	<b>497,062,509</b>	<b>0.02%</b>
<b>EXPENSES</b>			
Instruction	257,753,069	247,979,186	3.94%
Instruction-related services	41,085,682	39,010,013	5.32%
Pupil services	53,241,301	50,182,932	6.09%
General administration	13,019,540	12,892,555	0.98%
Plant services	42,584,250	39,490,642	7.83%
Ancillary and community services	8,762,485	8,558,349	2.39%
Debt service	11,612,551	10,626,769	9.28%
Other Outgo	5,910,614	2,229,584	165.10%
Enterprise services	18,953	17,050	11.16%
<b>Total Expenses</b>	<b>433,988,445</b>	<b>410,987,080</b>	<b>5.60%</b>
<b>Change in net position</b>	<b>63,155,920</b>	<b>86,075,429</b>	<b>-26.63%</b>
<b>Net Position - Beginning, as Restated*</b>	<b>664,263,143</b>	<b>579,831,352</b>	<b>14.56%</b>
<b>Net Position - Ending</b>	<b>\$ 727,419,063</b>	<b>\$ 665,906,781</b>	<b>9.24%</b>

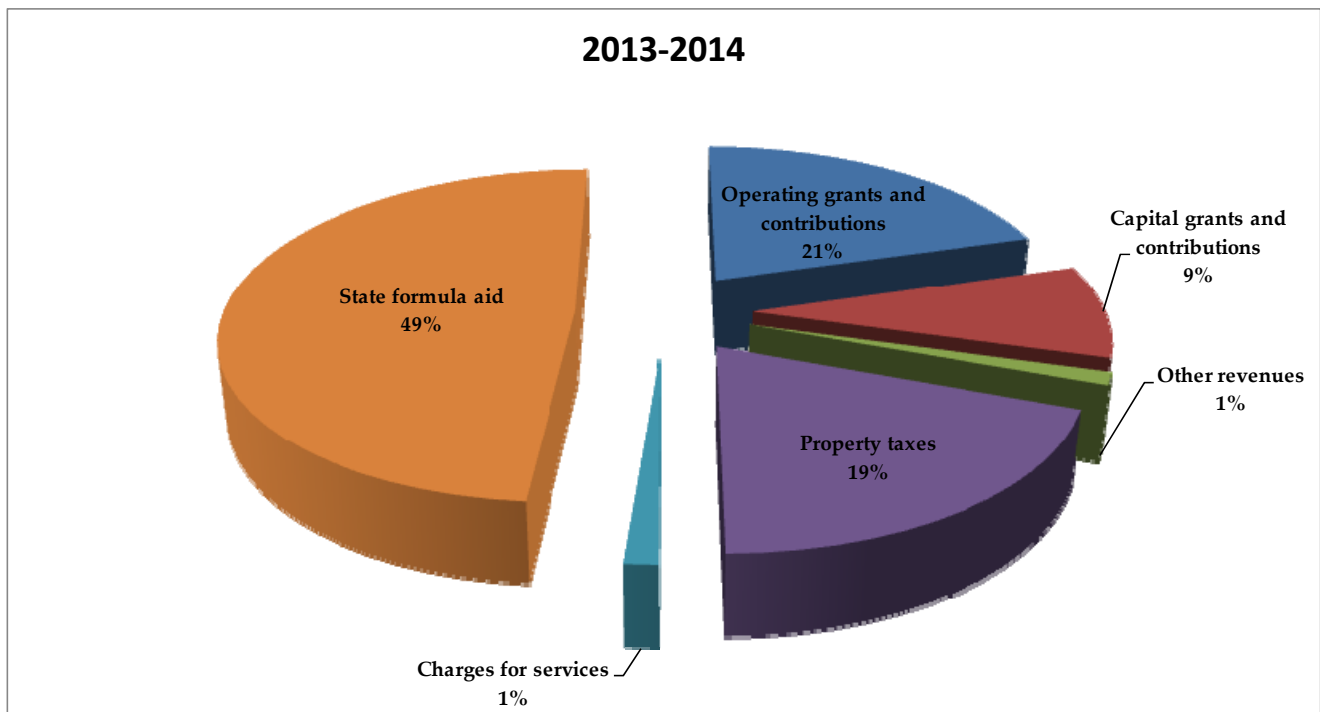
\*Beginning net position restated for the year ended 2014 only.

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Figure A-3  
Sources of Garden Grove Unified School District's Revenues for Fiscal Year 2014

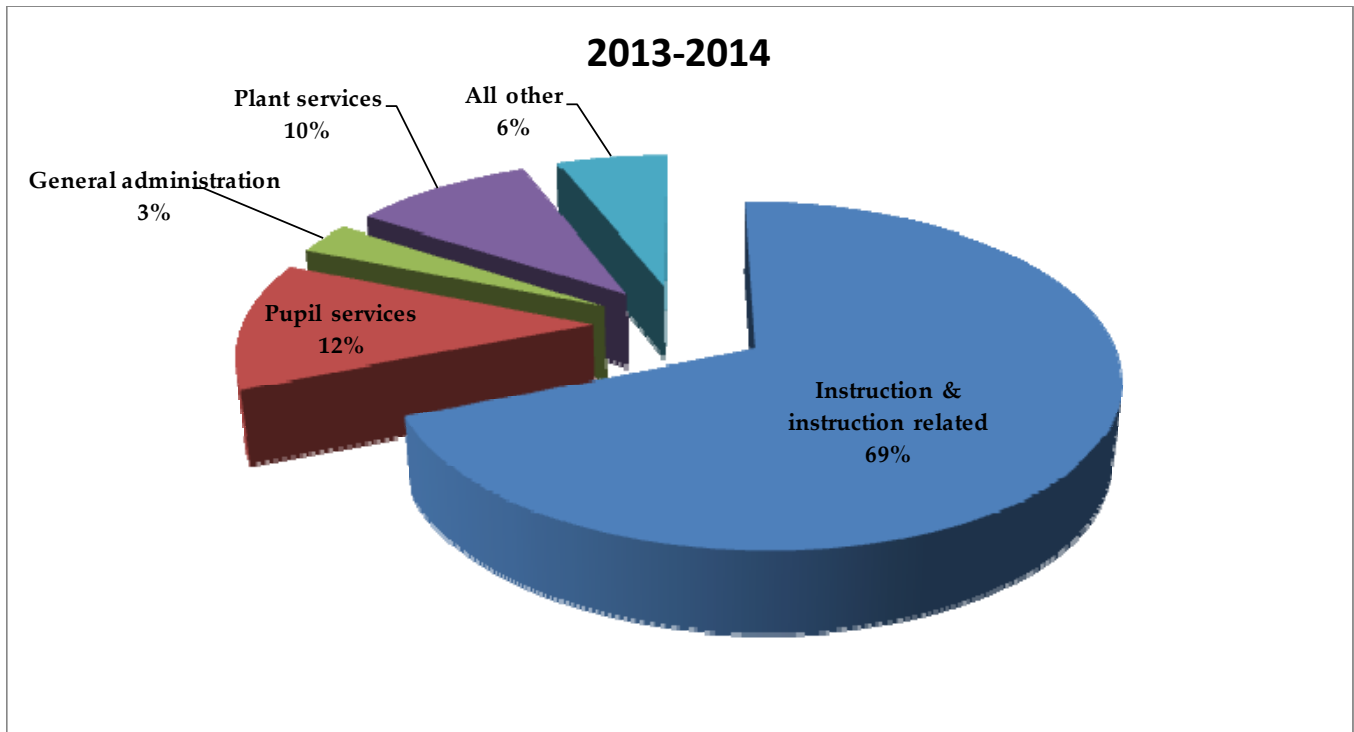


**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)**

**Figure A-4  
Sources of Garden Grove Unified School District's Expenses for Fiscal Year 2014**





**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Governmental Activities**

Revenues for the District's governmental activities increased 0.02%, and total expenses increased 5.60%. The net position increased 9.24% in 2013-2014 compared to an increase of 14.8% last year.

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 \$433.9 million.
- The amount of \$6.4 million was paid by the users of the District's programs.
- The federal and state governments subsidized programs with grants and contributions totaling \$101.7 million.
- State Modernization Program further added \$44.4 toward the cost of all activities.
- District taxpayers and the taxpayers of California paid \$338.6 million, the majority of the District's costs.
- Local and miscellaneous revenues account for \$6.1 million.
- Net position increased \$63.2 million in 2013-14.

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, 2014**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Governmental Activities (continued)**

**Table 3  
Net Cost of Services**

	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>
Instruction	\$ 161,955,895	\$ 128,273,700	26.26%
Instruction-related services	31,636,431	25,389,590	24.60%
Pupil services	24,731,224	10,015,564	146.93%
General administration	10,407,039	10,492,931	-0.82%
Plant services	38,236,363	37,068,965	3.15%
Ancillary and community services	2,151,977	1,958,872	9.86%
Debt service	11,612,551	10,626,769	9.28%
Transfers to other agencies	792,977	(3,106,550)	-125.53%
Enterprise services	18,953	17,050	11.16%
<b>Total Expenses</b>	<b>\$ 281,543,410</b>	<b>\$ 220,736,891</b>	<b>27.55%</b>

**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 \$407.1 million, compared to last year's fund balance amount of \$322.3 million.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

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

Major revisions in revenue for the year include the enactment of the Local Control Funding Formula (LCFF) with the passage of the 2013–14 Budget Act, replacing the previous K–12 finance system with a new funding formula. Under this new funding system, most state categorical programs were eliminated. Instead, districts receive funding based on the demographic profile of the students they serve, which is included in the LCFF model.

There were no significant increases or decreases in federal revenues.

State revenue decreased overall by 40.4%. Decreases were mainly due to the elimination of most state categorical programs under the Local Control Funding Formula (LCFF).

Overall local revenues increased by \$3.9 million. Increases include Community Services, Donations & Gifts, Regional Occupation Program (ROP)/Career Technical Education, Education Technology K-12 Voucher Program, and Supplemental Education Services (SES) Tutoring.

Major budget amendments in expenditures include 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 premium rates. 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 One Study results. Budget was also increased for asphalt replacement necessary throughout the district.

As shown on page 64, the District's Final Budget for the general fund shows anticipated revenues and transfers-in to be approximately \$55 million less than expenditures and transfers-out; and the actual results for the year show a \$4.6 million deficit.

Instructional and instruction-related functions were budgeted at \$336.2 million, however, expenditures were actually \$302.5 million, primarily due to unspent categorical budgets and unrestricted educational programs. Also, several programs such as Economic Impact Aid (EIA), Title I, Title II, Title III, and the Bechtel grant hold amounts in contingency until necessary and the amounts are then carried over if unused. Contingency amounts totaling \$10.2 million have an instruction-related designation until allocated for actual use.

Pupil service categories were budgeted at \$41.4 million and actual amounts were \$33.4 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 \$7.9 million, and relate primarily to contingency amounts in funding for Medi-Cal and Mental Health.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**GENERAL FUND BUDGETARY HIGHLIGHTS (continued)**

General administrative costs were budgeted at \$22.4 million; actual expenditures were \$13.8 million. The unspent administrative cost balances include retiree health and welfare costs that were moved to other functions as appropriate at year-end.

Maintenance and operations of school facilities were budgeted at \$48.5 million; actual expenditures were \$42.8 million, which primarily consisted of savings due to vacant positions and utility costs. The amount also included equipment related to the MOT Priority One Study results that were budgeted in 2013-2014 but expenditures are to occur in 2014-2015.

Budgeted facility acquisition and construction dollars were \$3.2 million; actual expenditures were \$1.4 million. These amounts include projects that were budgeted in 2013-2014 and are to be continued in 2014-2015. These projects include asphalt replacement necessary throughout the district and the California Clean Energy Jobs Act (Prop. 39).

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2013-14 the District had invested an additional net \$88.4 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 23.57% over last year's amount of \$374.9. (More detailed information about capital assets can be found in Note 1 E and Note 4 to the financial statements.) The net depreciation expense for the year was \$5.7 million.

Garden Grove Unified School District's student enrollment decreased from 47,960 in 2012-2013 to 47,296 in 2013-2014. Annual trends indicate that statewide enrollment is expected to continue to decline in future years.

**Table 4  
Governmental Activities**

	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>
<b>CAPITAL ASSETS</b>			
Land	\$ 228,184,670	\$ 228,184,670	0.00%
Construction in progress	105,732,024	64,952,980	62.78%
Land improvements	13,940,924	13,940,924	0.00%
Buildings & improvements	224,062,206	176,800,958	26.73%
Furniture & equipment	31,821,959	25,974,557	22.51%
Accumulated depreciation	(140,437,659)	(134,923,374)	4.09%
<b>Total Capital Assets</b>	<b>\$ 463,304,124</b>	<b>\$ 374,930,715</b>	<b>23.57%</b>

In 2014-2015, General Fund has budgeted \$1,890,100 for capital projects. The District continues to focus on modernizing facilities through the use of bond funds.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Long-Term Liabilities**

At year-end the District had \$327.9 million in long-term liabilities, an increase of 71.07% from last year, 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, 2014, \$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.

**Table 5  
Governmental Activities**

	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>
<b>LONG-TERM LIABILITIES</b>			
Total general obligation bonds	\$ 255,381,567	\$ 129,945,911	96.53%
State school building loans	45,000	60,000	-25.00%
Capital leases	247,774	309,482	-19.94%
Compensated absences	2,677,270	2,479,879	7.96%
Net OPEB obligation	70,605,390	62,180,232	13.55%
Less: current portion of long-term debt	(1,082,931)	(3,316,647)	-67.35%
<b>Total Long-term Liabilities</b>	<b>\$ 327,874,070</b>	<b>\$ 191,658,857</b>	<b>71.07%</b>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

Landmark legislation passed in Year 2013 reformed California school district finance by creating the new Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. 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 State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21, but the annual amount funded to meet the target is uncertain.

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 new compliance and audit requirements.

The State's economy is expected to grow at a modest rate of about 3% annually over the next two years, according to the UCLA Anderson Economic Forecast for September 2014. In the California forecast, Senior Economist Jerry Nickelsburg writes, "The California economy is moving forward in an expansion from the depths of the Great Recession. But, even though the number of jobs is now higher than any time in the past, the state remains below its potential in output and employment. That we are entering the sixth year of expansion illustrates just how painfully plodding this recovery process has been." The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and remains uncertain.

GASB 68, *Accounting and Financial Reporting for Pensions*, will be effective in the following fiscal year, 2014-15. The new standard requires the reporting of annual pension cost using an actuarially determined method and a net pension liability is expected to result. The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability will be reported in the Statement of Net Position as of June 30, 2015. The amount of the liability is unknown at this time but is anticipated to be material to the financial position of the District. To address the underfunding issues, the pension plans intend to raise employer rates in future years and the increased costs could be 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 2014-15 fiscal year.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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 Nancy Mefford, Executive 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, 2014**

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	<b>Governmental</b>
	<b>Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 599,962,286
Accounts receivable	58,387,006
Inventory	1,017,295
Prepaid expenses	27,262
Capital assets, not depreciated	333,916,694
Capital assets, net of accumulated depreciation	129,387,430
<b>Total Assets</b>	<b>1,122,697,973</b>
<b>LIABILITIES</b>	
Accrued liabilities	48,994,811
Unearned revenue	3,011,419
Claims liabilities	14,315,679
Long-term liabilities, current portion	1,082,931
Long-term liabilities, non-current portion	327,874,070
<b>Total Liabilities</b>	<b>395,278,910</b>
<b>NET POSITION</b>	
Net investment in capital assets	392,561,142
Restricted:	
Capital projects	45,137,248
Debt service	7,517,697
Educational programs	17,080,934
All others	12,429,022
Unrestricted	252,693,020
<b>Total Net Position</b>	<b>\$ 727,419,063</b>

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, 2014**

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					<b>Governmental Activities</b>
Instruction	\$ 257,753,069	\$ 403,424	\$ 51,011,407	\$ 44,382,343	\$ (161,955,895)
Instruction-related services					
Instructional supervision and administration	13,904,738	106,118	8,283,639	-	(5,514,981)
Instructional library, media, and technology	1,584,716	9,860	279,328	-	(1,295,528)
School site administration	25,596,228	31,638	738,668	-	(24,825,922)
Pupil services					
Home-to-school transportation	12,502,540	-	-	-	(12,502,540)
Food services	20,405,667	2,471,489	20,217,378	-	2,283,200
All other pupil services	20,333,094	63,573	5,757,637	-	(14,511,884)
General administration					
Centralized data processing	3,716,186	-	-	-	(3,716,186)
All other general administration	9,303,354	100,527	2,511,974	-	(6,690,853)
Plant services	42,584,250	2,506,359	1,841,528	-	(38,236,363)
Ancillary services	8,489,174	-	6,610,508	-	(1,878,666)
Community services	273,311	-	-	-	(273,311)
Enterprise activities	18,953	-	-	-	(18,953)
Interest on long-term debt	11,612,551	-	-	-	(11,612,551)
Other Outgo	5,910,614	709,365	4,408,272	-	(792,977)
<b>Total Governmental Activities</b>	<b>\$ 433,988,445</b>	<b>\$ 6,402,353</b>	<b>\$ 101,660,339</b>	<b>\$ 44,382,343</b>	<b>(281,543,410)</b>
General revenues					
Taxes and subventions					
Property taxes, levied for general purposes					
83,027,563					
Property taxes, levied for debt service					
8,256,924					
Property taxes, levied for other specific purposes					
5,349,837					
Federal and state aid not restricted for specific purposes					
242,006,840					
Interest and investment earnings					
1,017,332					
Miscellaneous					
5,040,834					
<b>Subtotal, General Revenue</b>					
<b>344,699,330</b>					
<b>CHANGE IN NET POSITION</b>					
<b>63,155,920</b>					
<b>Net Position - Beginning, as Restated</b>					
<b>664,263,143</b>					
<b>Net Position - Ending</b>					
<b>\$ 727,419,063</b>					

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 75,785,444	\$ 182,000,006	\$ 41,319,415	\$ 54,211,255	\$ 17,269,486	\$ 26,593,325	\$ 397,178,931
Accounts receivable	51,105,113	59,376	252,632	15,787	6,025	6,840,348	58,279,281
Due from other funds	3,524,028	10,823,500	2,463,817	-	-	2,606,394	19,417,739
Stores inventory	525,133	-	-	-	-	492,162	1,017,295
Prepaid expenditures	-	-	27,262	-	-	-	27,262
<b>Total Assets</b>	<b>\$ 130,939,718</b>	<b>\$ 192,882,882</b>	<b>\$ 44,063,126</b>	<b>\$ 54,227,042</b>	<b>\$ 17,275,511</b>	<b>\$ 36,532,229</b>	<b>\$ 475,920,508</b>
<b>LIABILITIES</b>							
Accrued liabilities	\$ 28,254,320	\$ 8,919,245	\$ 966,874	\$ -	\$ 995	\$ 1,648,696	\$ 39,790,130
Due to other funds	12,984,684	7,434	709,844	9,089,794	-	3,197,556	25,989,312
Unearned revenue	3,003,461	-	-	-	-	7,958	3,011,419
<b>Total Liabilities</b>	<b>44,242,465</b>	<b>8,926,679</b>	<b>1,676,718</b>	<b>9,089,794</b>	<b>995</b>	<b>4,854,210</b>	<b>68,790,861</b>
<b>FUND BALANCES</b>							
Nonspendable	725,133	-	27,262	-	-	517,738	1,270,133
Restricted	17,023,744	183,956,203	-	45,137,248	-	25,099,709	271,216,904
Committed	12,256,178	-	-	-	-	6,060,572	18,316,750
Assigned	1,945,000	-	42,359,146	-	17,274,516	-	61,578,662
Unassigned	54,747,198	-	-	-	-	-	54,747,198
<b>Total Fund Balances</b>	<b>86,697,253</b>	<b>183,956,203</b>	<b>42,386,408</b>	<b>45,137,248</b>	<b>17,274,516</b>	<b>31,678,019</b>	<b>407,129,647</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 130,939,718</b>	<b>\$ 192,882,882</b>	<b>\$ 44,063,126</b>	<b>\$ 54,227,042</b>	<b>\$ 17,275,511</b>	<b>\$ 36,532,229</b>	<b>\$ 475,920,508</b>

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, 2014**

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**Total Fund Balance - Governmental Funds** \$ 407,129,647

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	\$ 603,741,783	
Accumulated depreciation	(140,437,659)	463,304,124

**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:

(5,095,800)

**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	\$ 255,381,567	
State school building loans	45,000	
Capital leases	247,774	
Compensated absences	2,677,270	(258,351,611)

**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 and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

120,432,703

**Total Net Position - Governmental Activities** \$ 727,419,063

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
LCCF sources	\$ 312,724,257	\$ -	\$ -	\$ -	\$ -	\$ 3,219,253	\$ 315,943,510
Federal sources	26,326,583	-	-	-	-	23,017,860	49,344,443
Other state sources	54,332,598	-	-	44,216,412	-	4,883,928	103,432,938
Other local sources	9,057,364	456,692	6,501,234	165,930	62,482	11,723,175	27,966,877
<b>Total Revenues</b>	<b>402,440,802</b>	<b>456,692</b>	<b>6,501,234</b>	<b>44,382,342</b>	<b>62,482</b>	<b>42,844,216</b>	<b>496,687,768</b>
<b>EXPENDITURES</b>							
Current							
Instruction	261,870,375	-	-	-	-	4,047,207	265,917,582
Instruction-related services							
Instructional supervision and administration	14,319,402	-	-	-	-	132,727	14,452,129
Instructional library, media, and technology	1,635,711	-	-	-	-	9,374	1,645,085
School site administration	24,684,144	-	-	-	-	1,899,025	26,583,169
Pupil services							
Home-to-school transportation	12,261,608	-	-	-	-	-	12,261,608
Food services	235,825	-	-	-	-	20,773,773	21,009,598
All other pupil services	20,925,256	-	-	-	-	313,785	21,239,041
General administration							
Centralized data processing	3,984,043	-	-	-	-	-	3,984,043
All other general administration	9,781,304	-	61,419	-	-	821,280	10,664,003
Plant services	42,808,803	-	60,664	685	17,758	535,403	43,423,313
Facilities acquisition and maintenance	1,399,694	30,962,534	3,746,975	55,073,576	-	475,088	91,657,867
Ancillary services	8,571,217	-	-	-	-	-	8,571,217
Community services	284,001	-	-	-	-	-	284,001
Enterprise activities	18,953	-	-	-	-	-	18,953
Transfers to other agencies	5,428,180	-	-	-	-	-	5,428,180
Debt service							
Principal	76,708	-	-	-	-	2,000,000	2,076,708
Interest and other	28,613	1,057,677	-	-	-	9,226,440	10,312,730
<b>Total Expenditures</b>	<b>408,313,837</b>	<b>32,020,211</b>	<b>3,869,058</b>	<b>55,074,261</b>	<b>17,758</b>	<b>40,234,102</b>	<b>539,529,227</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(5,873,035)</b>	<b>(31,563,519)</b>	<b>2,632,176</b>	<b>(10,691,919)</b>	<b>44,724</b>	<b>2,610,114</b>	<b>(42,841,459)</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in	1,532,441	-	-	-	-	225,431	1,757,872
Other sources	-	119,995,000	-	-	-	7,682,234	127,677,234
Transfers out	(225,431)	-	(1,000,000)	-	-	(516,711)	(1,742,142)
<b>Net Financing Sources (Uses)</b>	<b>1,307,010</b>	<b>119,995,000</b>	<b>(1,000,000)</b>	<b>-</b>	<b>-</b>	<b>7,390,954</b>	<b>127,692,964</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(4,566,025)</b>	<b>88,431,481</b>	<b>1,632,176</b>	<b>(10,691,919)</b>	<b>44,724</b>	<b>10,001,068</b>	<b>84,851,505</b>
<b>Fund Balance - Beginning</b>	<b>91,263,278</b>	<b>95,524,722</b>	<b>40,754,232</b>	<b>55,829,167</b>	<b>17,229,792</b>	<b>21,676,951</b>	<b>322,278,142</b>
<b>Fund Balance - Ending</b>	<b>\$ 86,697,253</b>	<b>\$ 183,956,203</b>	<b>\$ 42,386,408</b>	<b>\$ 45,137,248</b>	<b>\$ 17,274,516</b>	<b>\$ 31,678,019</b>	<b>\$ 407,129,647</b>

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, 2014**

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**Net Change in Fund Balances - Governmental Funds** \$ 84,851,505

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:	\$	94,039,448	
Depreciation expense:		(5,730,327)	88,309,121

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:

2,076,708

Debt proceeds:

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

(127,677,234)

Donated capital assets:

In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was:

64,288

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:

(2,023,833)

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**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF  
ACTIVITIES, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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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. (333,665)

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: (197,391)

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: 575,243

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: 17,511,178

<b>Change in Net Position of Governmental Activities</b>	\$ 63,155,920
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GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

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	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 202,783,355
Accounts receivable	107,725
Due from other funds	7,044,970
<b>Total Assets</b>	<b>209,936,050</b>
<b>LIABILITIES</b>	
Current liabilities	
Accrued liabilities	4,108,881
Due to other funds	473,397
<b>Total current liabilities</b>	<b>4,582,278</b>
Non-current liabilities	
Claims liabilities	14,315,679
Net OPEB obligation	70,605,390
<b>Total non-current liabilities</b>	<b>84,921,069</b>
<b>Total Liabilities</b>	<b>89,503,347</b>
<b>NET POSITION</b>	
Unrestricted	120,432,703
<b>Total Net Position</b>	<b>\$ 120,432,703</b>

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, 2014

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	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>OPERATING REVENUE</b>	
Charges for services	\$ 67,447,964
Other local revenues	3,522,504
<b>Total operating revenues</b>	<u>70,970,468</u>
<b>OPERATING EXPENSE</b>	
Salaries and benefits	1,066,357
Supplies and materials	3,607
Professional services	52,765,905
<b>Total operating expenses</b>	<u>53,835,869</u>
<b>Operating income/(loss)</b>	<u>17,134,599</u>
<b>NON-OPERATING REVENUES/(EXPENSES)</b>	
Interest income	392,309
Transfers out	(15,730)
<b>Total non-operating revenues/(expenses)</b>	<u>376,579</u>
<b>CHANGE IN NET POSITION</b>	17,511,178
Net Position - Beginning	102,921,525
<b>Net Position - Ending</b>	<u>\$ 120,432,703</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, 2014**

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	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>Cash flows from operating activities</b>	
Cash received (paid) from assessments made to (from) other funds	\$ 88,713,395
Cash payments for payroll, insurance, and operating costs	(48,126,886)
Net cash provided by (used for) operating activities	<u>40,586,509</u>
<b>Cash flows from non-capital financing activities</b>	
Interfund transfers in (out)	(15,730)
Net cash provided by (used for) non-capital financing activities	<u>(15,730)</u>
<b>Cash flows from investing activities</b>	
Interest received	392,309
Net cash provided by (used for) investing activities	<u>392,309</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>40,963,088</u>
 <b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	161,820,267
End of year	<u>\$ 202,783,355</u>
 <b>Reconciliation of operating income (loss) to cash provided by (used for) operating activities</b>	
Operating income (loss)	\$ 17,134,599
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	65,162
(Increase) decrease in due from other funds	17,677,765
Increase (decrease) in accounts payable	622,172
Increase (decrease) in due to other funds	(3,338,347)
Increase (decrease) in net OPEB obligation	8,425,158
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 40,586,509</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, 2014

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	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,283,400
<b>Total Assets</b>	<b>\$ 1,283,400</b>
<b>LIABILITIES</b>	
Due to student groups	\$ 1,283,400
<b>Total Liabilities</b>	<b>\$ 1,283,400</b>

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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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, 2014

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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*).

**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, 2014

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

C. Basis of Presentation (*continued*)

Major Governmental Funds (*continued*)

**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]*).

**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*).

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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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*).

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

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**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.



GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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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 held in the county treasury is recorded at cost, which approximates fair value.

**Investments**

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, *continued*  
 JUNE 30, 2014

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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 fair market values 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, 2014

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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.

**Premiums and Discounts**

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

**Deferred Outflows/Deferred Inflows of Resources**

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources.

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

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

**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.

*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.

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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

E. Assets, Liabilities, Fund Balance and Net Position (*continued*)

**Fund Balance** (*continued*)

*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.

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.

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2014

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

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.

J. New Accounting Pronouncements

**GASB Statement No. 65** – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. The District has implemented GASB Statement No. 65 for the year ended June 30, 2014.

**GASB Statement No. 68** – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The District has not yet determined the impact on the financial statements.

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

**GASB Statement No. 71** – In November 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This standard seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year. The Statement is effective for periods beginning after June 15, 2014. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Fiduciary Funds
Cash in county	\$ 396,330,409	\$ 198,043,752	\$ 594,374,161	\$ -
Cash on hand and in banks	622,946	4,739,603	5,362,549	1,283,400
Cash in revolving fund	225,576	-	225,576	-
<b>Total cash and cash equivalents</b>	<b>\$ 397,178,931</b>	<b>\$ 202,783,355</b>	<b>\$ 599,962,286</b>	<b>\$ 1,283,400</b>

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, 2014

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NOTE 2 – CASH AND INVESTMENTS (*continued*)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$593,787,636 and an amortized book value of \$594,374,161. The average weighted maturity for this pool is 519 days.

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014

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, 2014, 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, 2014, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government								
Categorical aid	\$ 654,408	\$ -	\$ -	\$ -	\$ -	\$ 6,097,817	\$ -	\$ 6,752,225
State Government								
Apportionment	36,481,033	-	-	-	-	-	-	36,481,033
Categorical aid	7,454,945	-	-	-	-	723,351	-	8,178,296
Lottery	3,857,606	-	-	-	-	-	-	3,857,606
Local Government								
Other local sources	2,657,121	59,376	252,632	15,787	6,025	19,180	107,725	3,117,846
<b>Total</b>	<b>\$ 51,105,113</b>	<b>\$ 59,376</b>	<b>\$ 252,632</b>	<b>\$ 15,787</b>	<b>\$ 6,025</b>	<b>\$ 6,840,348</b>	<b>\$ 107,725</b>	<b>\$ 58,387,006</b>



**GARDEN GROVE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**NOTE 4 – CAPITAL ASSETS**

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

	<b>Balance</b>			<b>Balance</b>
	<b>July 01, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2014</b>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 228,184,670	\$ -	\$ -	\$ 228,184,670
Construction in progress	64,952,980	90,045,410	49,266,366	105,732,024
Total Capital Assets not Being Depreciated	293,137,650	90,045,410	49,266,366	333,916,694
Capital assets being depreciated				
Land improvements	13,940,924	-	-	13,940,924
Buildings & improvements	176,800,958	47,261,248	-	224,062,206
Furniture & equipment	25,974,557	6,063,444	216,042	31,821,959
Total Capital Assets Being Depreciated	216,716,439	53,324,692	216,042	269,825,089
Less Accumulated Depreciation				
Land improvements	8,427,544	376,956	-	8,804,500
Buildings & improvements	103,336,600	4,072,365	-	107,408,965
Furniture & equipment	23,159,230	1,281,006	216,042	24,224,194
Total Accumulated Depreciation	134,923,374	5,730,327	216,042	140,437,659
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 374,930,715</b>	<b>\$ 137,639,775</b>	<b>\$ 49,266,366</b>	<b>\$ 463,304,124</b>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

**NOTE 5 – INTERFUND TRANSACTIONS**

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

Individual interfund receivable and payable balances at June 30, 2014 were as follows:

Due To Other Funds	Due From Other Funds						Total
	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Funds		
General Fund	\$ -	\$ 1,115,010	\$ 2,463,817	\$ 2,528,439	\$ 6,877,418	\$	12,984,684
Building Fund	414	-	-	-	7,020		7,434
Capital Facilities Fund	91,148	618,696	-	-	-		709,844
County School Facilities Fund	-	9,089,794	-	-	-		9,089,794
Non-Major Governmental Funds	3,037,024	-	-	-	160,532		3,197,556
Internal Service Funds	395,442	-	-	77,955	-		473,397
<b>Total Due From Other Funds</b>	<b>\$ 3,524,028</b>	<b>\$ 10,823,500</b>	<b>\$ 2,463,817</b>	<b>\$ 2,606,394</b>	<b>\$ 7,044,970</b>	<b>\$</b>	<b>26,462,709</b>

The Building Fund owed the General Fund to reimburse for expenditures incurred.	\$ 414
The Non-Major Adult Education Fund owed the General Fund to reimburse for expenditures incurred.	1,154,612
The Non-Major Child Development Fund owed the General Fund to reimburse for expenditures incurred.	559,388
The Non-Major Cafeteria Fund owed the General Fund to reimburse for expenditures incurred.	806,313
The Non-Major Deferred Maintenance Fund owed the General Fund to reimburse for expenditures incurred.	516,711
The Capital Facilities Fund owed the General Fund to reimburse for developer fee and redevelopment receipts.	91,148
The Internal Service Funds owed the General Fund for premium contributions.	395,442
The General Fund owed the Building Fund to reimburse for expenditures incurred.	1,115,010
The County School Facilities Fund owed the Building Fund to reimburse for expenditures incurred.	9,089,794
The Capital Facilities Fund owed the Building Fund to reimburse for expenditures incurred.	618,696
The General Fund owed the Non-Major Adult Education Fund to reimburse for expenditures incurred.	26
The General Fund owed the Non-Major Child Development Fund to reimburse for expenditures incurred.	45,565
The General Fund owed the Non-Major Cafeteria Fund to reimburse for payroll costs.	482,848
The General Fund owed the Non-Major Deferred Maintenance Fund to reimburse for expenditures incurred.	2,000,000
The General Fund owed the Capital Facilities Fund to reimburse for expenditures incurred.	2,463,817
The Internal Service Funds owed the Non-Major Child Development Fund for premium contributions.	33,604
The Internal Service Funds owed the Non-Major Cafeteria Fund for premium contributions.	44,351
The General Fund owed the Internal Service Funds to reimburse for expenditures incurred.	6,877,418
The Building Fund owed the Internal Service Funds to reimburse for expenditures incurred.	7,020
The Non-Major Adult Education Fund owed the Internal Service Funds to reimburse for expenditures incurred.	5,175
The Non-Major Child Development Fund owed the Internal Service Funds to reimburse for expenditures incurred.	53,165
The Non-Major Cafeteria Fund owed the Internal Service Funds to reimburse for expenditures incurred.	102,192
<b>Total</b>	<b>\$ 26,462,709</b>

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014

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NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

Interfund Transfers Out	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 225,431	\$ 225,431
Capital Facilities Fund	1,000,000	-	1,000,000
Non-Major Governmental Funds	516,711	-	516,711
Internal Service Funds	15,730	-	15,730
<b>Total Interfund Transfers</b>	<b>\$ 1,532,441</b>	<b>\$ 225,431</b>	<b>\$ 1,757,872</b>

The Non-Major Deferred Maintenance Fund transferred to the General Fund for reimbursement of projects.	\$ 516,711
The Capital Facilities Fund transferred to the General Fund per the redevelopment agreement.	1,000,000
The Internal Service Funds transferred to the General Fund for reimbursement of computer losses.	15,730
The General Fund transferred to the Non-Major Child Development Fund for reimbursement of expenditures incurred.	225,431
<b>Total</b>	<b>\$ 1,757,872</b>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

**NOTE 6 – ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2014 consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities
Payroll	\$ 15,720,911	\$ 74,066	\$ -	\$ -	\$ 1,138,651	\$ 78,146	\$ -	\$ 17,011,774
Construction	-	8,845,179	966,874	995	-	-	-	9,813,048
Vendors payable	8,154,040	-	-	-	510,045	4,030,735	-	12,694,820
Unmatured interest	-	-	-	-	-	-	5,095,800	5,095,800
Other liabilities	4,379,369	-	-	-	-	-	-	4,379,369
<b>Total</b>	<b>\$ 28,254,320</b>	<b>\$ 8,919,245</b>	<b>\$ 966,874</b>	<b>\$ 995</b>	<b>\$ 1,648,696</b>	<b>\$ 4,108,881</b>	<b>\$ 5,095,800</b>	<b>\$ 48,994,811</b>

**NOTE 7 – UNEARNED REVENUE**

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 233,128	\$ -	\$ 233,128
State categorical sources	1,425,504	-	1,425,504
Local sources	1,344,829	7,958	1,352,787
<b>Total</b>	<b>\$ 3,003,461</b>	<b>\$ 7,958</b>	<b>\$ 3,011,419</b>

**NOTE 8 – LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2014 consisted of the following:

	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014	Balance Due In One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 127,641,651	\$ 120,328,665	\$ 2,000,000	\$ 245,970,316	\$ 1,000,000
Unamortized premium	2,304,260	7,682,234	575,243	9,411,251	-
Total general obligation bonds	129,945,911	128,010,899	2,575,243	255,381,567	1,000,000
State school building loans	60,000	-	15,000	45,000	15,000
Capital leases	309,482	-	61,708	247,774	67,931
Compensated absences	2,479,879	197,391	-	2,677,270	-
Net OPEB obligation	62,180,232	8,425,158	-	70,605,390	-
<b>Total</b>	<b>\$ 194,975,504</b>	<b>\$ 136,633,448</b>	<b>\$ 2,651,951</b>	<b>\$ 328,957,001</b>	<b>\$ 1,082,931</b>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

**NOTE 8 – LONG-TERM DEBT (continued)**

**Measure A 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.

The outstanding bonded debt of Garden Grove Unified School District at June 30, 2014 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2013	Additions	Deductions	Outstanding June 30, 2014
Election 2010, Series A	September 23, 2010	August 1, 2021	2.00 - 5.00%	\$ 11,900,160	\$ 9,541,651	\$ 333,665	\$ 2,000,000	\$ 7,875,316
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	-	119,995,000	-	119,995,000
					<b>\$ 127,641,651</b>	<b>\$ 120,328,665</b>	<b>\$ 2,000,000</b>	<b>\$ 245,970,316</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, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 1,000,000	\$ 157,250	\$ 1,157,250
2016	575,000	134,000	709,000
2017	1,000,000	102,500	1,102,500
2018	1,100,000	68,750	1,168,750
2019	1,100,000	27,500	1,127,500
2020 - 2022	2,125,160	4,374,840	6,500,000
Accretion	975,156	(975,156)	-
<b>Total</b>	<b>\$ 7,875,316</b>	<b>\$ 3,889,684</b>	<b>\$ 11,765,000</b>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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**NOTE 8 – LONG-TERM DEBT (continued)**

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

The annual requirements to amortize the Series B Build America Bonds payable, outstanding as of June 30, 2014, are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Subsidy</b>	<b>Total</b>
2015	\$ -	\$ 7,123,720	\$ (2,493,302)	\$ 4,630,418
2016	-	7,123,720	(2,493,302)	4,630,418
2017	-	7,123,720	(2,493,302)	4,630,418
2018	-	7,123,720	(2,493,302)	4,630,418
2019	-	7,123,720	(2,493,302)	4,630,418
2020 - 2024	3,400,000	35,457,175	(12,410,011)	26,447,164
2025 - 2029	15,300,000	32,970,490	(11,539,672)	36,730,818
2030 - 2034	31,000,000	25,928,055	(9,074,819)	47,853,236
2035 - 2039	45,700,000	14,305,845	(5,007,046)	54,998,799
2040 - 2041	22,700,000	1,412,965	-	24,112,965
<b>Total</b>	<b>\$ 118,100,000</b>	<b>\$ 145,693,130</b>	<b>\$ (50,498,058)</b>	<b>\$ 213,295,072</b>

**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, 2014, are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ -	\$ 5,512,077	\$ 5,512,077
2016	2,780,000	6,038,306	8,818,306
2017	-	5,989,656	5,989,656
2018	-	5,989,656	5,989,656
2019	-	5,989,656	5,989,656
2020 - 2024	3,345,000	29,779,031	33,124,031
2025 - 2029	14,720,000	27,371,031	42,091,031
2030 - 2034	24,910,000	22,707,828	47,617,828
2035 - 2039	46,620,000	13,922,313	60,542,313
2040 - 2041	27,620,000	1,488,638	29,108,638
<b>Total</b>	<b>\$ 119,995,000</b>	<b>\$ 124,788,192</b>	<b>\$ 244,783,192</b>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**State Preschool Loan**

On July 14, 2004, the District was awarded \$150,000 for a Child Care Facilities Revolving Loan to construct portable facilities for the preschool program at Wakeham Elementary School. A capital lease agreement with the state was entered into and requires \$150,000 be repaid within ten years, at the amount of \$15,000 per year, at which time title to the facility will transfer to the District. The revolving loan bears no interest. As of June 30, 2014, \$45,000 remains outstanding on the loan.

**Capital Leases**

The District has leases with Xerox & OCE for equipment with options to purchase. The capital leases have minimum lease payments as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
2015	\$ 90,321
2016	90,321
2017	69,843
2018	45,464
Total minimum lease payments	<u>295,949</u>
Less amount representing interest	48,175
Present value of minimum lease payments	<u>\$ 247,774</u>

**Compensated Absences**

Total unpaid employee compensated absences as of June 30, 2014 amounted to \$2,677,270. This amount is included as part of long-term liabilities in the government-wide financial statements.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

**NOTE 9 – FUND BALANCES**

Fund balances were composed of the following elements at June 30, 2014:

	General Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-spendable</b>							
Revolving cash	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ 25,576	\$ 225,576
Stores inventory	525,133	-	-	-	-	492,162	1,017,295
Prepaid expenditures	-	-	27,262	-	-	-	27,262
Total non-spendable	725,133	-	27,262	-	-	517,738	1,270,133
<b>Restricted</b>							
Educational programs	17,023,744	-	-	-	-	57,190	17,080,934
Capital projects	-	183,956,203	-	45,137,248	-	-	229,093,451
Debt service	-	-	-	-	-	12,613,497	12,613,497
All others	-	-	-	-	-	12,429,022	12,429,022
Total restricted	17,023,744	183,956,203	-	45,137,248	-	25,099,709	271,216,904
<b>Committed</b>							
Stabilization	12,256,178	-	-	-	-	-	12,256,178
Other commitments	-	-	-	-	-	6,060,572	6,060,572
Total committed	12,256,178	-	-	-	-	6,060,572	18,316,750
<b>Assigned</b>							
VDI Infrastructure	1,000,000	-	-	-	-	-	1,000,000
MOT Priority One	945,000	-	-	-	-	-	945,000
Capital projects	-	-	42,359,146	-	17,274,516	-	59,633,662
Total assigned	1,945,000	-	42,359,146	-	17,274,516	-	61,578,662
<b>Unassigned</b>							
Reserve for economic uncertainties	8,170,785	-	-	-	-	-	8,170,785
Remaining unassigned	46,576,413	-	-	-	-	-	46,576,413
Total unassigned	54,747,198	-	-	-	-	-	54,747,198
<b>Total</b>	\$ 86,697,253	\$ 183,956,203	\$ 42,386,408	\$ 45,137,248	\$ 17,274,516	\$ 31,678,019	\$ 407,129,647

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, 2014

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NOTE 10 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District administers a single-employer defined benefit other postemployment plan (OPEB), where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Self Insurance Fund. The District implemented GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2007-08.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	270
Active plan members	2,801
Total*	<u>3,071</u>
 Number of participating employers	 1

\*As of July 1, 2013 actuarial study

The District’s Self-Insurance Fund is a single-employer defined benefit postemployment healthcare plan administered by the District that covers eligible retired employees of the District including all departments. The Fund provides health insurance benefits to eligible retirees and their spouses.

B. Funding Policy

Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts annually toward the cost of health insurance premiums. Plan members are required to contribute \$240 annually for Retiree Only coverage and \$560, if dependent coverage is elected. The required contribution is based on projected pay-as-you-go financing requirements. Each retiree makes a contribution towards the premium and the District funds the remainder. For fiscal year 2013-14 the District contributed \$3,327,688 to the plan.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2014**

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

**C. Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 13,059,645
Interest on net OPEB obligation	2,798,110
Adjustment to annual required contribution	<u>(4,104,909)</u>
Annual OPEB cost (expense)	11,752,846
Contributions made	<u>(3,327,688)</u>
Increase (decrease) in net OPEB obligation	8,425,158
Net OPEB obligation, beginning of the year	<u>62,180,232</u>
Net OPEB obligation, end of the year	<u>\$ 70,605,390</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2014 and the preceding two years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 11,752,846	28%	\$ 70,605,390
2013	\$ 16,757,336	29%	\$ 62,180,232
2012	\$ 16,964,816	45%	\$ 50,284,142

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014

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

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2013	\$ -	\$ 105,216,861	\$ 105,216,861	0%	\$ 276,440,920	38%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014**

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

**E. Actuarial Methods and Assumptions**

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30 year closed, 6 years elapsed
Actuarial Assumptions:	
Discount rate	4.5%
Medical trend	7.0% to 5.0% in year 5
Prescription drug trend	8.0% to 5.0% in year 7
Administrative fee trend	3.0%

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014**

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**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS**

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

**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.

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary for fiscal year 2014 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 2014 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2013-14	\$ 16,846,332	100%
2012-13	\$ 15,488,880	100%
2011-12	\$ 15,619,242	100%

**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 \$9,831,506 to CalSTRS (5.204% of 2011-12 creditable compensation subject to CalSTRS).

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2014

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NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

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.

**Funding Policy**

Prior to January 1, 2013, active plan members 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.

	Contribution	Percent of Required Contribution
2013-14	\$ 6,103,935	100%
2012-13	\$ 5,750,734	100%
2011-12	\$ 5,506,258	100%

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

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**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, 2014.

**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, 2014.

**C. Construction Commitments**

As of June 30, 2014, the District had commitments with respect to unfinished capital projects of \$89,757,213.

**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 989,899 and property values of approximately \$22.65 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, 2014**

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**NOTE 14 – RESTATEMENT OF NET POSITION**

The beginning net position of Governmental Activities has been restated in order to reflect the elimination of amortization of debt issuance costs in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 665,906,781
Restatement	(1,643,638)
Net Position - Beginning, as Restated	<u>\$ 664,263,143</u>

**NOTE 15 – 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, 2014 were \$1,788,316 for worker's compensation claims, \$29,127,163 for medical and dental claims, and \$2,362,012 for catastrophic claims, bringing total claim payments to \$33,277,491. 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, 2014 to \$14,315,679.



**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2014**

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**NOTE 15 – RISK MANAGEMENT (continued)**

Claims payable and other liabilities in fiscal year 2014 and 2013 were as follows:

	<b>General Liability</b>	<b>Workers' Compensation</b>	<b>Health &amp; Welfare</b>	<b>Total</b>
Liability Balance, July 01, 2013	\$ 473,423	\$ 7,762,719	\$ 7,945,570	\$ 16,181,712
Claims & changes in estimates	-	2,804,148	28,607,311	31,411,459
Claims payments	-	(1,788,316)	(31,489,176)	(33,277,492)
Liability Balance, June 30, 2014	<u>\$ 473,423</u>	<u>\$ 8,778,551</u>	<u>\$ 5,063,705</u>	<u>\$ 14,315,679</u>
Assets available to pay claims at June 30, 2014				<u>\$ 209,936,050</u>

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
<b>REVENUES</b>				
LCFF sources	\$ 255,029,648	\$ 312,193,510	\$ 312,724,257	\$ 530,747
Federal sources	30,150,489	30,989,821	26,326,583	(4,663,238)
Other state sources	91,751,180	54,695,419	54,332,598	(362,821)
Other local sources	8,753,783	12,636,558	9,057,364	(3,579,194)
<b>Total Revenues</b>	<b>385,685,100</b>	<b>410,515,308</b>	<b>402,440,802</b>	<b>(8,074,506)</b>
<b>EXPENDITURES</b>				
Certificated salaries	197,964,446	209,217,149	197,930,870	11,286,279
Classified salaries	64,599,730	69,801,973	63,656,306	6,145,667
Employee benefits	111,133,369	101,998,604	93,847,041	8,151,563
Books and supplies	34,884,745	36,030,077	14,528,456	21,501,621
Services and other operating expenditures	31,579,397	39,994,644	31,355,486	8,639,158
Capital outlay	650,000	4,788,635	2,283,457	2,505,178
Other outgo				
Excluding transfers of indirect costs	2,706,380	5,650,819	5,533,501	117,318
Transfers of indirect costs	(705,569)	(891,374)	(821,280)	(70,094)
<b>Total Expenditures</b>	<b>442,812,498</b>	<b>466,590,527</b>	<b>408,313,837</b>	<b>58,276,690</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(57,127,398)</b>	<b>(56,075,219)</b>	<b>(5,873,035)</b>	<b>50,202,184</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,000,000	1,532,441	1,532,441	-
Transfers out	(4,139,660)	(421,919)	(225,431)	196,488
<b>Net Financing Sources (Uses)</b>	<b>(3,139,660)</b>	<b>1,110,522</b>	<b>1,307,010</b>	<b>196,488</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(60,267,058)</b>	<b>(54,964,697)</b>	<b>(4,566,025)</b>	<b>50,398,672</b>
<b>Fund Balance - Beginning</b>	<b>87,083,996</b>	<b>91,263,278</b>	<b>91,263,278</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 26,816,938</b>	<b>\$ 36,298,581</b>	<b>\$ 86,697,253</b>	<b>\$ 50,398,672</b>

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2014**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2013	\$ -	\$ 105,216,861	\$ 105,216,861	0%	\$ 276,440,920	38%
July 1, 2011	\$ -	\$ 133,446,233	\$ 133,446,233	0%	257,385,515	52%
July 1, 2009	\$ -	\$ 123,690,199	\$ 123,690,199	0%	281,529,029	44%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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 Funding Progress**

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2014, the District incurred no excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code.

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**SUPPLEMENTARY  
INFORMATION**

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**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE  
 FOR THE YEAR ENDED JUNE 30, 2014**

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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 46 elementary schools, 10 intermediate schools, 7 high schools, 2 continuation high schools, 2 special education facilities and 2 adult education centers.

**GOVERNING BOARD**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
George West, Ed.D	President	November, 2016
Lan Quoc Nguyen	Vice President	November, 2014
Bob Harden	Member	November, 2014
Bao Nguyen	Member	November, 2016
Linda Reed	Member	November, 2016

**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. Lorraine Rae  
*Assistant Superintendent, Special Education and Student Services*

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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 Adult Education Cluster	84.010	14329	\$ 11,513,306
Adult Education: Adult Secondary Education	84.002A	13978	45,204
Adult Basic Education & ESL (Section 231)	84.002A	14508	698,619
Adult Education: English Literacy and Civics Education	84.002A	14109	344,513
Subtotal Adult Education Cluster			<u>1,088,336</u>
Title II, Part A, Teacher Quality	84.367	14341	1,350,609
Title III Cluster			
Title III, Immigrant Education Program	84.365	15146	166,296
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	2,515,543
Subtotal Title III Cluster			<u>2,681,839</u>
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	726,750
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	7,566,343
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	34,777
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	531,860
Part B, Preschool Grants	84.173	13430	153,242
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	302,042
Preschool Staff Development	84.173A	13431	2,917
Subtotal Special Education Cluster			<u>8,591,181</u>
IDEA Early Intervention Grants	84.181	23761	110,635
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	363,485
<b>Total U. S. Department of Education</b>			<u><u>26,426,141</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
Basic Breakfast Program	10.553	13390	5,274
National School Lunch Program	10.555	13391	13,212,434
Needy Breakfast Program	10.553	13526	3,067,817
After School Meal Supplements	10.559	*	678,756
Summer Food Service Program for Children	10.559	13004	166,967
USDA Commodities	10.555	*	2,042,743
Subtotal Child Nutrition Cluster			<u>19,173,991</u>
Fresh Fruit and Vegetable Program	10.582	14968	245,624
<b>Total U. S. Department of Agriculture</b>			<u><u>19,419,615</u></u>
NATIONAL SCIENCE FOUNDATION			
<i>Passed through California State University, Fullerton</i>			
Teachers Assisting Students to Excel in Mathematics	47.082	*	12,047
<b>Total National Science Foundation</b>			<u><u>12,047</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Child Development: Federal General and State Preschool	93.596	13609	214,825
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	628,405
<b>Total U. S. Department of Health &amp; Human Services</b>			<u>843,230</u>
<b>Total Federal Expenditures</b>			<u><u>\$ 46,701,033</u></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, 2014**

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	<b>Second Period Report</b>	<b>Annual Report</b>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	13,351.51	13,365.11
Extended Year Special Education	30.64	30.64
Special Education - Nonpublic Schools	5.71	5.73
Extended Year Special Education - Nonpublic Schools	0.57	0.57
Total TK/K through Third	<u>13,388.43</u>	<u>13,402.05</u>
Fourth through Sixth		
Regular ADA	10,461.43	10,466.79
Extended Year Special Education	17.49	17.49
Special Education - Nonpublic Schools	5.53	5.93
Extended Year Special Education - Nonpublic Schools	1.01	1.01
Total Fourth through Sixth	<u>10,485.46</u>	<u>10,491.22</u>
Seventh through Eighth		
Regular ADA	7,312.63	7,310.02
Extended Year Special Education	13.63	13.63
Special Education - Nonpublic Schools	7.21	6.85
Extended Year Special Education - Nonpublic Schools	1.31	1.31
Total Seventh through Eighth	<u>7,334.78</u>	<u>7,331.81</u>
Ninth through Twelfth		
Regular ADA	14,365.18	14,294.77
Extended Year Special Education	34.14	34.14
Special Education - Nonpublic Schools	19.56	18.51
Extended Year Special Education - Nonpublic Schools	3.49	3.49
Total Ninth through Twelfth	<u>14,422.37</u>	<u>14,350.91</u>
TOTAL SCHOOL DISTRICT	<u>45,631.04</u>	<u>45,575.99</u>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2014**

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<b>Grade Level</b>	<b>Minutes Requirement</b>	<b>Minutes Requirement Reduced</b>	<b>2013-14 Actual Minutes</b>	<b>Number of Days</b>	<b>Status</b>
Kindergarten	36,000	35,000	41,400	180	Complied
Grade 1	50,400	49,000	54,890	180	Complied
Grade 2	50,400	49,000	54,890	180	Complied
Grade 3	50,400	49,000	54,890	180	Complied
Grade 4	54,000	52,500	54,890	180	Complied
Grade 5	54,000	52,500	54,890	180	Complied
Grade 6	54,000	52,500	54,890	180	Complied
Grade 7	54,000	52,500	55,660	180	Complied
Grade 8	54,000	52,500	55,660	180	Complied
Grade 9	64,800	63,000	64,850	180	Complied
Grade 10	64,800	63,000	64,850	180	Complied
Grade 11	64,800	63,000	64,850	180	Complied
Grade 12	64,800	63,000	64,850	180	Complied

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>2015 (Budget)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 436,590,350	\$ 403,973,243	\$ 378,652,223	\$ 379,334,480
Expenditures And Other Financing Uses	464,875,124	408,539,268	387,923,297	380,649,116
Net change in Fund Balance	\$ (28,284,774)	\$ (4,566,025)	\$ (9,271,074)	\$ (1,314,636)
Ending Fund Balance	\$ 58,412,479	\$ 86,697,253	\$ 91,263,278	\$ 100,534,352
Available Reserves*	\$ 9,400,000	\$ 54,747,198	\$ 65,320,164	\$ 75,832,620
Available Reserves As A Percentage Of Outgo	2.02%	13.40%	16.84%	19.92%
Long-term Debt	\$ 327,874,070	\$ 328,957,001	\$ 194,975,504	\$ 183,536,037
Average Daily Attendance At P-2	44,607	45,631	46,091	46,644

The General Fund balance has decreased by \$13,837,099 over the past two years. The fiscal year 2014-15 budget projects a further decrease of \$28,284,774. 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 deficits in each of the past three years and anticipates incurring an operating deficit during the 2014-15 fiscal year. Total long term obligations have increased by \$145,420,964 over the past two years.

Average daily attendance has decreased by 1,013 ADA over the past two years. Additional decline of 1,024 ADA is anticipated during the 2014-15 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, 2014**

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	<b>Internal Service Funds</b>
June 30, 2014, annual financial and budget report fund balance	\$ 115,816,150
Adjustments and reclassifications:	
Increase (decrease) in total fund balances:	
Net OPEB obligation	4,616,553
Net adjustments and reclassifications	4,616,553
June 30, 2014, audited financial statement fund balance	<u>\$ 120,432,703</u>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 331,307	\$ 3,845	\$ 8,943,586	\$ 4,701,090	\$ 12,613,497	\$ 26,593,325
Accounts receivable	871,535	767,244	5,199,883	1,686	-	6,840,348
Due from other funds	26	79,169	527,199	2,000,000	-	2,606,394
Stores inventory	-	-	492,162	-	-	492,162
<b>Total Assets</b>	<b>\$ 1,202,868</b>	<b>\$ 850,258</b>	<b>\$ 15,162,830</b>	<b>\$ 6,702,776</b>	<b>\$ 12,613,497</b>	<b>\$ 36,532,229</b>
<b>LIABILITIES</b>						
Accrued liabilities	\$ 43,081	\$ 180,515	\$ 1,299,607	\$ 125,493	\$ -	\$ 1,648,696
Due to other funds	1,159,787	612,553	908,505	516,711	-	3,197,556
Unearned revenue	-	-	7,958	-	-	7,958
<b>Total Liabilities</b>	<b>1,202,868</b>	<b>793,068</b>	<b>2,216,070</b>	<b>642,204</b>	<b>-</b>	<b>4,854,210</b>
<b>FUND BALANCES</b>						
Non-spendable	-	-	517,738	-	-	517,738
Restricted	-	57,190	12,429,022	-	12,613,497	25,099,709
Committed	-	-	-	6,060,572	-	6,060,572
<b>Total Fund Balances</b>	<b>-</b>	<b>57,190</b>	<b>12,946,760</b>	<b>6,060,572</b>	<b>12,613,497</b>	<b>31,678,019</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,202,868</b>	<b>\$ 850,258</b>	<b>\$ 15,162,830</b>	<b>\$ 6,702,776</b>	<b>\$ 12,613,497</b>	<b>\$ 36,532,229</b>

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, 2014**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
<b>REVENUES</b>						
LCFF sources	\$ 1,219,253	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 3,219,253
Federal sources	1,088,336	214,825	19,419,615	-	2,295,084	23,017,860
Other state sources	36,807	3,489,705	1,272,913	-	84,503	4,883,928
Other local sources	314,703	248,488	2,735,815	14,109	8,410,060	11,723,175
<b>Total Revenues</b>	<b>2,659,099</b>	<b>3,953,018</b>	<b>23,428,343</b>	<b>2,014,109</b>	<b>10,789,647</b>	<b>42,844,216</b>
<b>EXPENDITURES</b>						
Current						
Instruction	1,142,924	2,904,283	-	-	-	4,047,207
Instruction-related services						
Instructional supervision and administration	-	132,727	-	-	-	132,727
Instructional library, media, and technology	-	9,374	-	-	-	9,374
School site administration	1,467,720	431,305	-	-	-	1,899,025
Pupil services						
Food services	-	-	20,773,773	-	-	20,773,773
All other pupil services	5,771	308,014	-	-	-	313,785
General administration						
All other general administration	41,697	102,524	677,059	-	-	821,280
Plant services	987	296,159	-	238,257	-	535,403
Facilities acquisition and maintenance	-	-	-	475,088	-	475,088
Debt service						
Principal	-	-	-	-	2,000,000	2,000,000
Interest and other	-	-	-	-	9,226,440	9,226,440
<b>Total Expenditures</b>	<b>2,659,099</b>	<b>4,184,386</b>	<b>21,450,832</b>	<b>713,345</b>	<b>11,226,440</b>	<b>40,234,102</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>-</b>	<b>(231,368)</b>	<b>1,977,511</b>	<b>1,300,764</b>	<b>(436,793)</b>	<b>2,610,114</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	225,431	-	-	-	225,431
Other sources	-	-	-	-	7,682,234	7,682,234
Transfers out	-	-	-	(516,711)	-	(516,711)
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>225,431</b>	<b>-</b>	<b>(516,711)</b>	<b>7,682,234</b>	<b>7,390,954</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>(5,937)</b>	<b>1,977,511</b>	<b>784,053</b>	<b>7,245,441</b>	<b>10,001,068</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>63,127</b>	<b>10,969,249</b>	<b>5,276,519</b>	<b>5,368,056</b>	<b>21,676,951</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ 57,190</b>	<b>\$ 12,946,760</b>	<b>\$ 6,060,572</b>	<b>\$ 12,613,497</b>	<b>\$ 31,678,019</b>

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
 NOTES TO SUPPLEMENTARY INFORMATION  
 JUNE 30, 2014**

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**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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of 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, 2014 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2014.

	CFDA	
	Number	Amount
	<hr/>	
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 49,344,443
Medi-Cal Billing Option	93.778	(348,326)
Build America Bonds Interest Subsidy	*	<u>(2,295,084)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$46,701,033</u>

**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, 2014**

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**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, 2014, the District participated in the Longer Day incentive funding program. As of June 30, 2014, the District had not yet met its target funding. Through 2014-15, the instructional day and minute requirements have been reduced pursuant to Education Code Section 46201.2.

**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.



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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

**Corporate Office:**

2727 Camino Del Rio South  
Suite 219  
San Diego, CA 92108

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

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

Independent Auditors' Report

Governing Board  
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, 2014, 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 15, 2014.

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California  
December 15, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
2727 Camino Del Rio South  
Suite 219  
San Diego, CA 92108

toll-free: 877.220.7229  
tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

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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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 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, 2014.

### **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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Christy White Associates*

San Diego, California  
December 15, 2014

## REPORT ON STATE COMPLIANCE

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

John Whitehouse, CPA

Heather Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

### Corporate Office:

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tel: 619.270.8222  
fax: 619.260.9085  
www.christywhite.com

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### Independent Auditors' Report

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 *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2013-14*, issued by the California Education Audit Appeals Panel 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, 2014, 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 *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2013-14*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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.

***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, 2014.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is described in the accompanying schedule of findings and questioned costs as item #2014-1, our opinion on state compliance is not modified with respect to this matter.

Garden Grove Unified School District’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Garden Grove Unified School District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***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:

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Yes
Instructional Time for school districts	10	Yes
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below

*(Continued on the next page)*

*Procedures Performed (continued)*

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance; for charter schools	8	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform procedures for California Clean Energy Jobs Act because the District did not have expenditures related to the program as of June 30, 2014.

*Christy White Associates*

San Diego, California  
December 15, 2014



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**SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS**

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**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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 section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>	
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>1,401,031</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>Yes</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, 2014

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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, 2014.*

GARDEN GROVE UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014

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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, 2014.*

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
41000	CalSTRS
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**FINDING #2014-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)**

**Criteria:** Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section 19849 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

**Condition:** 4 of 60 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as free or reduced price meal eligible (FRPM) did not have proper supporting documentation to support their designation.

**Cause:** The Child Nutrition program allows districts to use the student’s prior year meal application during the first 30 days of school to ensure all eligible students receive a free or reduced price meal during the application collection period. The District was unaware that this meal application status would not be allowed to be considered for CALPADS purposes.

**Effect:** The District is not in compliance with state requirements.

**Context:** 4 of 60 students reported as FRPM eligible did not have proper supporting documentation to support their designation.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

**FINDING #2014-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000),  
continued**

**Questioned Costs:**

To determine questioned costs, the error rate (4/60) was extrapolated over the entire impacted population for all schools, as the error only related to FRPM determination, only pupils eligible based on FRPM were considered.

A Errors Discovered	4
B Population Tested	60
C Error Rate (A / B)	6.67%
D Total Impacted Population	4,833
E Total Unallowed Students (C x D)	322
F Unadjusted Pupil Count	38,214
G Total Population	46,936
H Unadjusted % (F / G)	81.42%
I Adjusted Count (F - E)	37,892
J Adjusted % (I / G)	80.73%

Schools Tested	Unadjusted Pupil Count	Unadjusted Enrollment	Total Errors Found	Adjusted Pupil Count	Adjusted Enrollment
Bryant Elementary School	526	558	0	526	558
C.C. Violette Elementary School	522	562	0	522	562
Dwight D. Eisenhower Elementary School	869	892	1	868	892
Earl Warren Elementary	430	469	0	430	469
Enders Elementary School	213	528	0	213	528
Ernest O. Lawrence Elementary School	547	602	0	547	602
Ethan B. Allen Elementary School	433	835	1	432	835
Dr. Walter C. Ralston Intermediate School	534	668	0	534	668
Louis Lake Intermediate School	471	610	1	470	610
Bolsa Grande High School	1,723	2,003	1	1,722	2,003
La Quinta High School	1,673	2,161	0	1,673	2,161
Marie L. Hare High School	371	392	0	371	392
<b>Total District (all sites)</b>	<b>38,214</b>	<b>46,936</b>	<b>322*</b>	<b>37,892</b>	<b>46,936</b>

\*Total based on extrapolation of error rate over the entire impacted population.

	Unadjusted	Adjusted	Difference
Unduplicated Pupil Percentage	81.42%	80.73%	
Base Grant Funding	\$ 361,767,730		
Supplemental Grant Funding at Target	20% \$ 58,908,267	\$ 58,411,584	\$ 496,683
Concentration Grant Funding at Target	50% \$ 47,784,541	\$ 46,542,834	1,241,707
Total Grant Funding at Target			1,738,390
Gap Percentage for 13/14			12%
Questioned Costs for 13/14			<u>\$ 208,607</u>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINDING #2014-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000),  
continued**

**Recommendation:** We recommend that the District ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have supporting documentation to support their CALPADS designation.

**District Response:** We have tested our data and have had internal conversations between the departments of Information Systems, Food Services, and Business Services. Based on these conversations, the student information system (Aeries) was reprogrammed to automatically refresh student data as the FRPM designation changes. This refreshed data reflects the information from the Food Services system that reports the meal application status (WinSNAP).

Beginning 2014-15, the FRPM designation in CalPADS will be tested to validate the existence of corresponding lunch applications. This will ensure that all students with a FRPM designation will have supporting documentation to substantiate the designation.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

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*No audit findings for the fiscal year ended 2012-2013.*