

GARDEN GROVE UNIFIED SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2016

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garden Grove Unified School District, as of and for the year ended June 30, 2016, 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Garden Grove Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 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 14, 2016

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, 2016. 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 14.54% over 2014-2015 (Table 1).
- Overall revenues were \$631.9 million, \$74.8 million more than expenses (Table 2).
- The net cost of basic programs increased 66.87% to \$395.0 million (Table 3).
- The District purchased two (2) copiers for two (2) sites - \$37,422
- Transportation GPS application software - \$100,255
- The District invested \$1,120,040 for nineteen (19) buses
- Three (3) vans were purchased - \$73,951
- CTE/ROP Program purchases include four (4) Switch Lab electric vehicle kits - \$106,954
- A vision screener was purchased for the Special Education Department - \$12,637
- The District invested in instructional technology software - \$428,558
- Warehouse purchases included the following:
 - o Commercial washer - \$23,031
 - o Pallet racking system - \$38,948
- The District invested the following in Information Technology purchases and improvements:
 - o Information Technology relocation costs - \$116,413
 - o Video surveillance project - \$122,599
 - o Audio visual replacement project - \$10,559
 - o Cabling projects at various sites - \$152,651
 - E-Rate donation - \$135,860
- Purchases for Food Services included the following capitalized expenditures:
 - o Nine (9) ovens - \$91,428
 - o Two (2) heat and hold oven cabinets - \$11,967
 - o Two (2) stainless steel sinks - \$44,334
 - o Four (4) freezers - \$20,174
 - o One (1) walk-in freezer was relocated - \$6,290
 - o One (1) walk-in refrigerator/freezer structurally secured - \$33,028
- School Improvement Projects include:
 - o One (1) electronic message center installed at one (1) high school - \$15,999
 - o Six (6) playground structures installed at (6) school sites - \$292,736
 - o Heating Ventilation Air Conditioning (HVAC) at twenty-three (23) sites - \$32,795,686
 - o Beautification projects at two (2) sites - \$124,698
 - o Fencing installed at one (1) elementary school site - \$19,800
 - o Roof repairs at four (4) sites - \$422,858
 - o Pool projects at two high schools - \$41,790
 - o Gymnasium floor repairs at one (1) high school - \$25,430

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL HIGHLIGHTS (continued)

- School Improvement Projects include (continued):
 - o Drought Tolerant Landscape (DTL) at three (3) sites - \$478,672
 - o Marquee installed at the Monroe Language Academy - \$38,680
- Maintenance and Operations (M&O) equipment purchases and improvements include:
 - o One (1) van/vehicle - \$25,875
 - o Two (2) utility trucks - \$62,568
 - o Seven (7) pick-up trucks - \$193,092
 - o One (1) tractor - \$33,855
 - o One (1) boom lift - \$45,139
 - o One (1) backhoe - \$85,320
 - o One (1) ground mower - \$84,469
 - o Additional costs in 2015-16 for fire restoration project - Bolsa Grande High School - \$144,301
 - o Emergency repairs at three (3) sites totaled - \$213,392
 - o Maintenance & Operation (M&O) relocation costs for 2015-16 - \$194,429
- Facilities Projects include:
 - o Work in Progress for modernization - \$112.0 million for work at forty-one (41) sites
 - Costs captured through the work order system - \$366,750
 - o Completed modernization projects at nine (9) sites - \$46.9 million
 - o Portables purchased for two (2) school sites - \$32,252
- District Office renovation projects include:
 - o Third Floor renovation- \$59,327
 - o Parking lot project - \$334,942
 - o Implementation of security access - \$28,714

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds* statements offer short- and long-term financial information about the District's self-insurance funds.

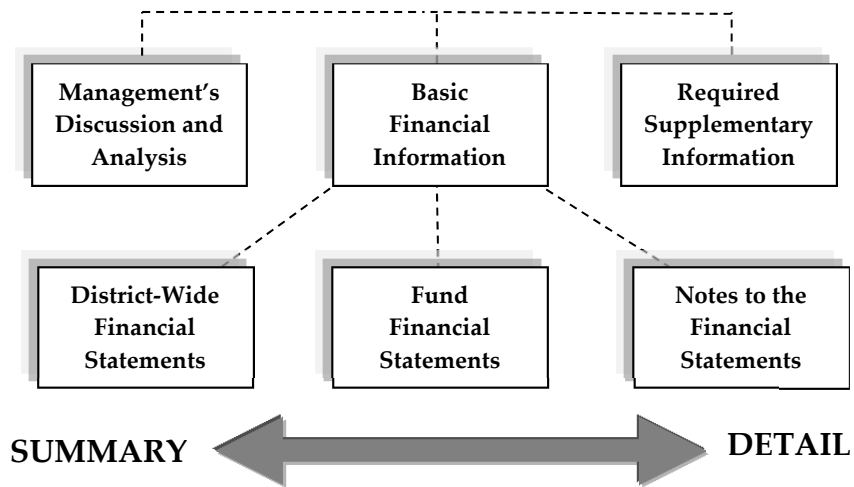
The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Components of the Financials Section

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



**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses & Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Changes in Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital; short-term and long-term	All assets and liabilities, both short-term and long-term, the District’s funds do not currently contain nonfinancial assets, although, they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016**

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, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position. The District's net position as of June 30, 2016 was \$589.4 million reflecting an increase of 14.54% since June 30, 2015. (See Table 1)

	2016	2015	Percentage Change
ASSETS			
Current and other assets	\$ 690,900,468	\$ 719,275,027	-3.94%
Capital assets	716,857,527	576,607,947	24.32%
Total Assets	1,407,757,995	1,295,882,974	8.63%
DEFERRED OUTFLOWS OF RESOURCES	52,235,503	25,982,315	101.04%
LIABILITIES			
Current liabilities	102,513,278	77,244,586	32.71%
Long-term liabilities	730,093,424	646,576,597	12.92%
Total Liabilities	832,606,702	723,821,183	15.03%
DEFERRED INFLOWS OF RESOURCES	38,014,403	83,488,345	-54.47%
NET POSITION			
Net investment in capital assets	557,325,761	466,580,212	19.45%
Restricted	150,001,752	148,631,320	0.92%
Unrestricted	(117,955,120)	(100,655,771)	17.19%
Total Net Position	\$ 589,372,393	\$ 514,555,761	14.54%

The District's financial position is the product of many factors including funding under the Local Control Funding Formula (LCFF) and the receipt of state modernization funds for our capital improvement projects. It is also impacted by GASB 68 as explained in the section titled Economic Factors and Next Year's Budget (page 20).

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in net position. The District's total revenues decreased 2.22% to \$631,913,197. (See Table 2) Property taxes and state formula aid accounted for most of the District's revenue, contributing about 73.08% of every dollar raised. (See Figure A-3.) Another 24.62% 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 14.38% to \$557,096,565. The District's expenses are predominantly related to educating and caring for students (82.93%). (See Figure A-4.) The purely administrative activities of the District accounted for 3.45% of total costs.

Total revenues surpassed expenses by \$74,816,632.

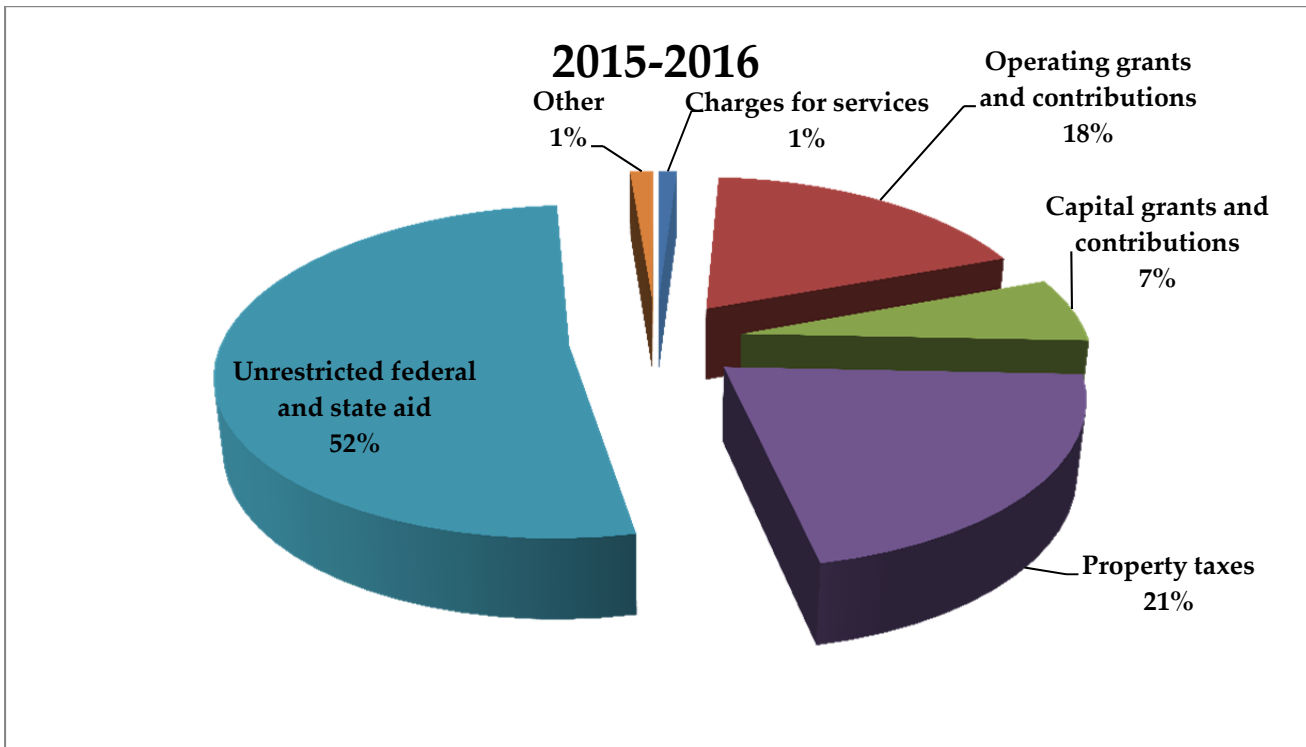
	2016	2015	Percentage Change
REVENUES			
Program revenues			
Charges for services	\$ 6,488,178	\$ 6,156,599	5.39%
Operating grants and contributions	115,600,799	108,713,061	6.34%
Capital grants and contributions	40,028,470	135,493,803	-70.46%
General revenues			
Property taxes	133,590,491	104,365,602	28.00%
Unrestricted federal and state aid	328,239,515	282,836,514	16.05%
Other	7,965,744	8,678,068	-8.21%
Total Revenues	631,913,197	646,243,647	-2.22%
EXPENSES			
Instruction	345,528,419	293,840,421	17.59%
Instruction-related services	52,055,018	45,449,883	14.53%
Pupil services	64,427,849	57,841,586	11.39%
General administration	19,222,645	16,909,829	13.68%
Plant services	44,802,932	43,773,607	2.35%
Ancillary and community services	10,988,981	10,005,331	9.83%
Debt service	13,680,370	14,233,495	-3.89%
Other Outgo	6,378,756	4,906,118	30.02%
Other	11,595	105,424	-89.00%
Total Expenses	557,096,565	487,065,694	14.38%
Change in net position	74,816,632	159,177,953	-53.00%
Net Position - Beginning*	514,555,761	355,377,808	44.79%
Net Position - Ending	\$ 589,372,393	\$ 514,555,761	14.54%

* Beginning Net Position was restated for the 2015 year only

GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

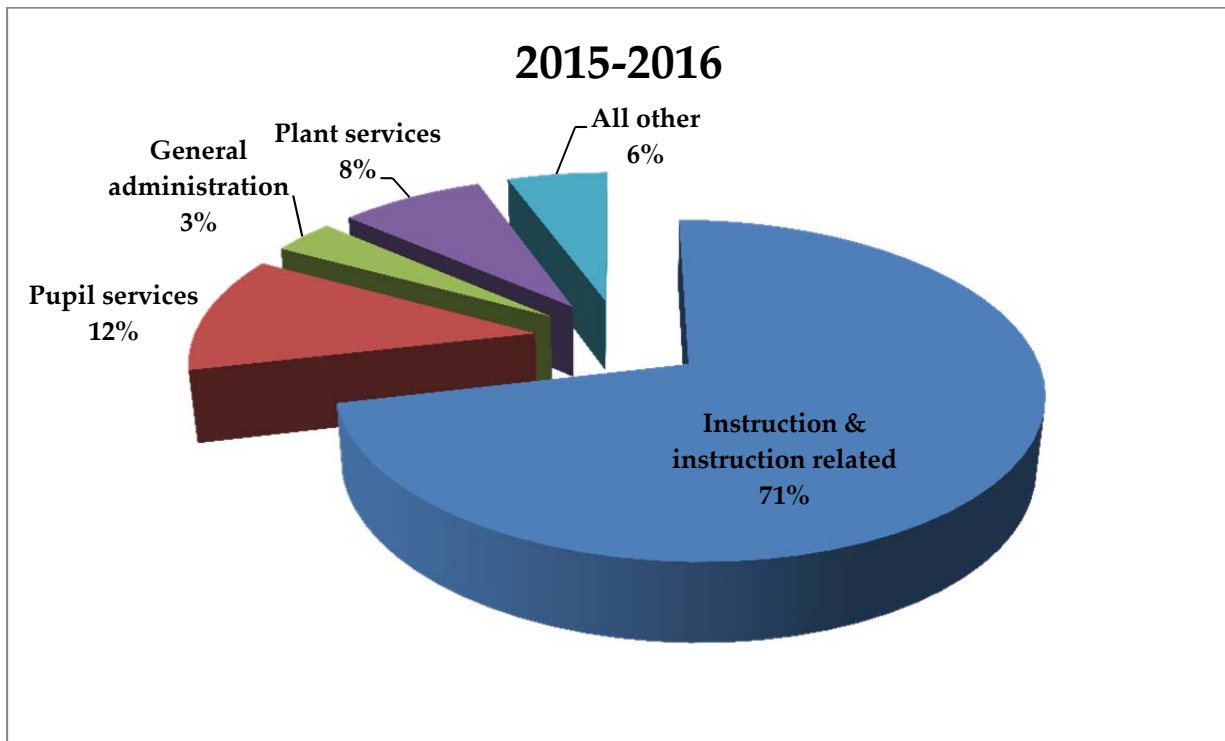
Figure A-3
Sources of Garden Grove Unified School District's Revenues for Fiscal Year 2016



GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Figure A-4
Sources of Garden Grove Unified School District's Expenses for Fiscal Year 2016



**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Governmental Activities

Revenues for the District's governmental activities decreased 2.22%, and total expenses increased 14.38%. The net position increased 14.54% in 2015-2016, compared to a decrease of 29.26% 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 \$557.1 million.
- The amount of \$6.5 million was paid by the users of the District's programs.
- The federal and state governments subsidized programs with grants and contributions totaling \$115.6 million.
- State Modernization Program further added \$40.0 toward the cost of all activities.
- District taxpayers and the taxpayers of California paid \$461.8 million, supporting the majority of the District's costs.
- Local and miscellaneous revenues account for \$8.0 million.
- Net position increased \$74.8 million in 2015-16.

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, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Governmental Activities (continued)

**Table 3
Net Cost of Services**

	2016	2015	Percentage Change
Instruction	\$ 246,588,223	\$ 102,730,826	140.03%
Instruction-related services	37,465,093	35,254,658	6.27%
Pupil services	32,480,485	29,646,549	9.56%
General administration	16,345,952	14,498,620	12.74%
Plant services	44,261,255	38,196,569	15.88%
Ancillary and community services	3,477,173	2,362,458	47.18%
Debt service	13,680,370	14,233,495	-3.89%
Transfers to other agencies	668,972	(315,818)	-311.82%
Other	11,595	94,864	-87.78%
Total Expenses	\$ 394,979,118	\$ 236,702,221	66.87%

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 \$394.9 million, compared to last year's fund balance amount of \$441.0 million.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

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.

Federal revenues increased overall by \$2.8 million. Budgetary increases were primarily made in Title I Part A of the Elementary and Secondary (ESEA) – Prior Year, Title III Limited English Proficient (LEP) – Prior Year, Medi-Cal and Project Cal-Well grants.

Federal revenue decreases were made in Title II Part A - Improving Teacher Quality and Special Education IDEA Basic Local Assistance.

State revenue increased overall by \$19.0 million. Budgetary increases were mainly made in Educator Effectiveness, Career Technical Education Incentive Grant (CTEIG) Program, Lottery, and STRS On-Behalf.

State revenue reductions were primarily made in Prop 98 One-Time Funds.

Overall local revenues increased by \$6.0 million. Increases include Donations and Gifts, Career Technical Education /Regional Occupation Program (CTE/ROP), Supplemental Education Services (SES) Tutoring, School-Based Medi-Cal Administrative Activities (SMAA), UCI-IES Live Ink, and Orange County United Way local grants.

As shown on page 68, the District's Final Budget for the general fund shows anticipated revenues and transfers-in to be approximately \$53.7 million less than expenditures and transfers-out; and the actual results for the year show a \$1.8 million increase.

Instructional and instruction-related functions were budgeted at \$393.2 million, however, expenditures were actually \$365.3 million, primarily due to unspent categorical budgets and unrestricted educational programs. Also, several programs such as Title I, Title II, Title III, and Site Local Control Funding Formula (LCFF) hold amounts in contingency until necessary and the amounts are then carried over if unused. Contingency amounts totaling \$8.3 million have an instruction-related designation until allocated for actual use.

Pupil service categories were budgeted at \$50.1 million and actual amounts were \$40.1 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 \$10.0 million, and relate to contingency amounts in funding for Medi-Cal and Project Cal-Well, as well as unspent Mental Health funds budgeted for services.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

General administrative costs were budgeted at \$24.8 million; actual expenditures were \$15.7 million. The unspent administrative cost balances include retiree health and welfare costs that were allocated to other functions as appropriate at year-end. Also, amounts were budgeted for Information Technology projects in 2015-2016 and expenditures are to be continued in 2016-2017.

Maintenance and operations of school facilities were budgeted at \$51.0 million; actual expenditures were \$42.5 million, which primarily consisted of savings due to vacant positions and utility costs. The amount also included equipment related to the MOT Priority Study Year Two results that were budgeted in 2015-2016. A portion of these funds are committed and will be carried over into 2016-2017.

Budgeted facility acquisition and construction dollars were \$11.8 million; actual expenditures were \$3.4 million. These amounts include projects that were budgeted in 2015-2016 and are to be continued in 2016-2017. These include the California Clean Energy Jobs Act (Prop. 39), Information Technology E-Rate 19 plans, and miscellaneous school projects.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the District had invested an additional net \$140.2 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 24.32% over last year's amount of \$576.6. (More detailed information about capital assets can be found in Note 1E and Note 4 to the financial statements.) The net depreciation expense for the year was \$13.6 million.

Garden Grove Unified School District's student enrollment decreased from 46,519 in 2014-2015 to 45,577 in 2015-2016. Annual trends indicate that statewide enrollment is expected to continue to decline in future years.

**Table 4
Governmental Activities**

	2016	2015	Percentage Change
CAPITAL ASSETS			
Land	\$ 228,184,670	\$ 228,184,670	0.00%
Construction in progress	195,426,326	130,301,212	49.98%
Land improvements	15,321,893	14,215,544	7.78%
Buildings & improvements	404,795,474	319,536,489	26.68%
Furniture & equipment	36,484,285	34,151,390	6.83%
Accumulated depreciation	(163,355,121)	(149,781,358)	9.06%
Total Capital Assets	\$ 716,857,527	\$ 576,607,947	24.32%

In 2016-2017, General Fund has budgeted \$5,546,609 for capital projects. The District continues to focus on modernizing facilities.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Liabilities

At year-end the District had \$730.1 million in long-term liabilities, an increase of 12.92% 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, 2016, \$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**

	2016	2015	Percentage Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 250,698,345	\$ 254,194,909	-1.38%
State school building loans	15,000	30,000	-50.00%
Capital leases	108,680	179,843	-39.57%
Compensated absences	3,471,310	2,889,331	20.14%
Net OPEB obligation	88,403,727	77,052,560	14.73%
Net pension liability	389,036,966	316,235,331	23.02%
Less: current portion of long-term debt	(1,640,604)	(4,005,377)	-59.04%
Total Long-term Liabilities	\$ 730,093,424	\$ 646,576,597	12.92%

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

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 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 annual compliance and audit requirements.

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

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

All of these factors were considered in preparing the District's budget for the 2016-17 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Jennell Sympson, 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, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 665,109,622
Accounts receivable	24,782,500
Inventory	1,008,346
Capital assets, not depreciated	423,610,996
Capital assets, net of accumulated depreciation	293,246,531
Total Assets	1,407,757,995
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	52,235,503
Total Deferred Outflows of Resources	52,235,503
LIABILITIES	
Accrued liabilities	85,948,702
Unearned revenue	1,982,816
Claims liabilities	12,941,156
Long-term liabilities, current portion	1,640,604
Long-term liabilities, non-current portion	730,093,424
Total Liabilities	832,606,702
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	38,014,403
Total Deferred Inflows of Resources	38,014,403
NET POSITION	
Net investment in capital assets	557,325,761
Restricted:	
Capital projects	121,056,165
Debt service	2,666,480
Educational programs	12,489,247
All others	13,789,860
Unrestricted	(117,955,120)
Total Net Position	\$ 589,372,393

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, 2016**

Function/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 345,528,419	\$ 125,326	\$ 58,786,400	\$ 40,028,470	\$	(246,588,223)
Instruction-related services						
Instructional supervision and administration	18,644,903	74,658	11,751,724	-		(6,818,521)
Instructional library, media, and technology	2,023,338	-	346,251	-		(1,677,087)
School site administration	31,386,777	1,353	2,415,939	-		(28,969,485)
Pupil services						
Home-to-school transportation	13,410,321	-	-	-		(13,410,321)
Food services	21,665,632	2,428,507	19,490,173	-		253,048
All other pupil services	29,351,896	2,983,534	7,045,150	-		(19,323,212)
General administration						
Centralized data processing	6,342,208	-	-	-		(6,342,208)
All other general administration	12,880,437	94,917	2,781,776	-		(10,003,744)
Plant services	44,802,932	-	541,677	-		(44,261,255)
Ancillary services	10,690,339	343	7,511,465	-		(3,178,531)
Community services	298,642	-	-	-		(298,642)
Enterprise activities	11,595	-	-	-		(11,595)
Interest on long-term debt	13,680,370	-	-	-		(13,680,370)
Other Outgo	6,378,756	779,540	4,930,244	-		(668,972)
Total Governmental Activities	\$ 557,096,565	\$ 6,488,178	\$ 115,600,799	\$ 40,028,470		(394,979,118)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes						115,750,382
Property taxes, levied for debt service						11,993,871
Property taxes, levied for other specific purposes						5,846,238
Federal and state aid not restricted for specific purposes						328,239,515
Interest and investment earnings						2,338,750
Miscellaneous						5,626,994
Subtotal, General Revenue						469,795,750
CHANGE IN NET POSITION						74,816,632
Net Position - Beginning						514,555,761
Net Position - Ending						\$ 589,372,393

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 178,511,951	\$ 95,017,633	\$ 109,120,389	\$ 23,404,973	\$ 45,712,654	\$ 451,767,600
Accounts receivable	15,585,802	119,814	69,453	16,278	8,813,289	24,604,636
Due from other funds	4,285,346	9,276,507	5,295,479	33,917,460	7,304,038	60,078,830
Stores inventory	741,558	-	-	-	266,788	1,008,346
Total Assets	\$ 199,124,657	\$ 104,413,954	\$ 114,485,321	\$ 57,338,711	\$ 62,096,769	\$ 537,459,412
LIABILITIES						
Accrued liabilities	\$ 52,373,428	\$ 9,588,856	\$ 9,105,568	\$ 624,966	\$ 4,906,406	\$ 76,599,224
Due to other funds	47,809,872	5,302,899	3,026,469	2,468,091	5,353,316	63,960,647
Unearned revenue	1,039,073	-	-	-	943,743	1,982,816
Total Liabilities	101,222,373	14,891,755	12,132,037	3,093,057	11,203,465	142,542,687
FUND BALANCES						
Nonspendable	941,558	-	-	-	292,364	1,233,922
Restricted	12,427,991	89,522,199	102,353,284	-	40,735,426	245,038,900
Committed	29,097,516	-	-	11,000,000	9,865,514	49,963,030
Assigned	13,193,573	-	-	43,245,654	-	56,439,227
Unassigned	42,241,646	-	-	-	-	42,241,646
Total Fund Balances	97,902,284	89,522,199	102,353,284	54,245,654	50,893,304	394,916,725
Total Liabilities and Fund Balances	\$ 199,124,657	\$ 104,413,954	\$ 114,485,321	\$ 57,338,711	\$ 62,096,769	\$ 537,459,412

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, 2016**

Total Fund Balance - Governmental Funds \$ 394,916,725

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	\$ 880,212,648	
Accumulated depreciation	(163,355,121)	716,857,527

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:

(5,514,949)

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	\$ 250,698,345	
State school building loans	15,000	
Capital leases	108,680	
Compensated absences	3,471,310	
Net pension liability	389,036,966	(643,330,301)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 52,235,503	
Deferred inflows of resources related to pensions	(38,014,403)	14,221,100

Internal service funds:

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

112,222,291

Total Net Position - Governmental Activities \$ 589,372,393

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 407,427,355	\$ -	\$ -	\$ -	\$ 4,000,000	\$ 411,427,355
Federal sources	29,807,563	-	-	-	22,073,241	51,880,804
Other state sources	85,438,448	-	39,397,889	-	7,047,006	131,883,343
Other local sources	11,829,052	888,368	630,581	145,362	23,483,760	36,977,123
Total Revenues	534,502,418	888,368	40,028,470	145,362	56,604,007	632,168,625
EXPENDITURES						
Current						
Instruction	318,167,200	-	-	-	4,570,627	322,737,827
Instruction-related services						
Instructional supervision and administration	17,244,428	-	-	-	512,975	17,757,403
Instructional library, media, and technology	1,841,286	-	-	-	17,597	1,858,883
School site administration	28,076,344	-	-	-	1,349,885	29,426,229
Pupil services						
Home-to-school transportation	14,212,345	-	-	-	-	14,212,345
Food services	95,484	-	-	-	20,970,512	21,065,996
All other pupil services	25,840,476	-	-	-	685,769	26,526,245
General administration						
Centralized data processing	4,830,295	-	-	-	-	4,830,295
All other general administration	10,842,990	-	-	-	1,082,543	11,925,533
Plant services	42,539,913	-	-	14,478	1,267,300	43,821,691
Facilities acquisition and maintenance	3,385,336	54,394,125	57,508,637	11,218,737	23,419,923	149,926,758
Ancillary services	10,546,270	-	-	-	-	10,546,270
Community services	287,089	-	-	-	-	287,089
Enterprise activities	8,195	-	-	-	-	8,195
Transfers to other agencies	6,939,319	-	-	-	-	6,939,319
Debt service						
Principal	86,163	-	-	-	3,355,000	3,441,163
Interest and other	15,470	-	-	-	13,296,026	13,311,496
Total Expenditures	484,958,603	54,394,125	57,508,637	11,233,215	70,528,157	678,622,737
Excess (Deficiency) of Revenues						
Over Expenditures	49,543,815	(53,505,757)	(17,480,167)	(11,087,853)	(13,924,150)	(46,454,112)
Other Financing Sources (Uses)						
Transfers in	625,058	-	-	48,000,000	333,210	48,958,268
Transfers out	(48,333,210)	-	-	-	(250,713)	(48,583,923)
Net Financing Sources (Uses)	(47,708,152)	-	-	48,000,000	82,497	374,345
NET CHANGE IN FUND BALANCE						
	1,835,663	(53,505,757)	(17,480,167)	36,912,147	(13,841,653)	(46,079,767)
Fund Balance - Beginning	96,066,621	143,027,956	119,833,451	17,333,507	64,734,957	440,996,492
Fund Balance - Ending	\$ 97,902,284	\$ 89,522,199	\$ 102,353,284	\$ 54,245,654	\$ 50,893,304	\$ 394,916,725

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, 2016**

Net Change in Fund Balances - Governmental Funds \$ (46,079,767)

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:	\$ 154,207,914	
Depreciation expense:	<u>(13,944,820)</u>	140,263,094

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:

3,441,163

Gain or loss from the disposal of capital assets:

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(13,514)

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:

50,125

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.

(418,999)

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:

(581,979)

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

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (1,074,505)

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: 560,563

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: (21,329,549)

Change in Net Position of Governmental Activities

\$ 74,816,632

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 213,342,022
Accounts receivable	177,864
Due from other funds	4,010,730
Total Assets	217,530,616
LIABILITIES	
Current liabilities	
Accrued liabilities	3,834,529
Due to other funds	128,913
Total current liabilities	3,963,442
Non-current liabilities	
Claims liabilities	12,941,156
Net OPEB obligation	88,403,727
Total non-current liabilities	101,344,883
Total Liabilities	105,308,325
NET POSITION	
Unrestricted	112,222,291
Total Net Position	\$ 112,222,291

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, 2016

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 39,591,310
Other local revenues	3,989,141
Total operating revenues	<u>43,580,451</u>
OPERATING EXPENSE	
Salaries and benefits	1,161,165
Supplies and materials	6,855
Professional services	64,306,886
Total operating expenses	<u>65,474,906</u>
Operating income/(loss)	<u>(21,894,455)</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	925,016
Grant income	14,235
Transfers out	(374,345)
Total non-operating revenues/(expenses)	<u>564,906</u>
CHANGE IN NET POSITION	(21,329,549)
Net Position - Beginning	<u>133,551,840</u>
Net Position - Ending	<u>\$ 112,222,291</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, 2016**

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Cash flows from operating activities	
Cash received (paid) from assessments made to (from) other funds	\$ 41,294,465
Cash payments for payroll, insurance, and operating costs	(55,128,442)
Net cash provided by (used for) operating activities	<u>(13,833,977)</u>
Cash flows from non-capital financing activities	
Non-operating grants received	14,235
Interfund transfers in (out)	(374,345)
Net cash provided by (used for) non-capital financing activities	<u>(360,110)</u>
Cash flows from investing activities	
Interest received	925,016
Net cash provided by (used for) investing activities	<u>925,016</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(13,269,071)</u>
 CASH AND CASH EQUIVALENTS	
Beginning of year	226,611,093
End of year	<u>\$ 213,342,022</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ (21,894,455)
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	(47,895)
(Increase) decrease in due from other funds	(2,238,091)
Increase (decrease) in accounts payable	(120,437)
Increase (decrease) in due to other funds	(144,227)
Increase (decrease) in claims liabilities	(740,039)
Increase (decrease) in net OPEB obligation	11,351,167
Net cash provided by (used for) operating activities	<u>\$ (13,833,977)</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, 2016

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and investments	\$ 1,456,978
Total Assets	\$ 1,456,978
LIABILITIES	
Due to student groups	\$ 1,456,978
Total Liabilities	\$ 1,456,978

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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*).

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.*).

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*).

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

C. Basis of Presentation (*continued*)

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*).

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

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

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

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

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

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

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

Unearned Revenue

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

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

Expenses/Expenditures

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

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

Cash and Cash Equivalents

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

Investments

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Inventories

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

Capital Assets

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

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

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

Interfund Balances

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

Compensated Absences

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

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

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.

Pensions

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

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

Fund Balance

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

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

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

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

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

Fund Balance (*continued*)

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

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

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

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

F. Interfund Activity

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

J. New Accounting Pronouncements

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 72 for the year ended June 30, 2016.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. A portion of this Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 73 for the year ended June 30, 2016.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental	Internal Service	Total	Fiduciary
	Funds	Funds	Governmental	Funds
			Activities	
Investment in county treasury	\$ 442,401,747	\$ 208,589,430	\$ 650,991,177	\$ -
Cash on hand and in banks	9,140,277	4,752,592	13,892,869	1,456,978
Cash in revolving fund	225,576	-	225,576	-
Total cash and investments	\$ 451,767,600	\$ 213,342,022	\$ 665,109,622	\$ 1,456,978

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, 2016

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 \$650,940,346 and an amortized book value of \$650,991,177. The average weighted maturity for this pool is 339 days.

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

G. Fair Value

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

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

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

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

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value (continued)

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

	<u>Uncategorized</u>
Investment in county treasury	<u>\$ 650,940,346</u>
Total fair market value of investments	<u>\$ 650,940,346</u>

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Activities</u>
Federal Government							
Categorical aid	\$ 5,177,753	\$ -	\$ -	\$ -	\$ 6,777,652	\$ -	\$ 11,955,405
State Government							
Categorical aid	1,488,665	-	-	-	1,528,614	-	3,017,279
Lottery	4,964,832	-	-	-	-	-	4,964,832
Local Government							
Other local sources	3,954,552	119,814	69,453	16,278	507,023	177,864	4,844,984
Total	<u>\$ 15,585,802</u>	<u>\$ 119,814</u>	<u>\$ 69,453</u>	<u>\$ 16,278</u>	<u>\$ 8,813,289</u>	<u>\$ 177,864</u>	<u>\$ 24,782,500</u>

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 228,184,670	\$ -	\$ -	\$ 228,184,670
Construction in progress	130,301,212	105,170,847	40,045,733	195,426,326
Total Capital Assets not Being Depreciated	358,485,882	105,170,847	40,045,733	423,610,996
Capital assets being depreciated				
Land improvements	14,215,544	1,106,349	-	15,321,893
Buildings & improvements	319,536,489	85,269,167	10,182	404,795,474
Furniture & equipment	34,151,390	2,707,284	374,389	36,484,285
Total Capital Assets Being Depreciated	367,903,423	89,082,800	384,571	456,601,652
Less Accumulated Depreciation				
Land improvements	9,182,496	390,688	-	9,573,184
Buildings & improvements	115,112,716	11,872,773	2,443	126,983,046
Furniture & equipment	25,486,146	1,681,359	368,614	26,798,891
Total Accumulated Depreciation	149,781,358	13,944,820	371,057	163,355,121
Governmental Activities				
Capital Assets, net	\$ 576,607,947	\$ 180,308,827	\$ 40,059,247	\$ 716,857,527

Depreciation expense for the year ended June 30, 2016 was allocated to governmental activities, as follows:

Governmental Activities	
Instruction	\$ 8,588,645
Instructional supervision and administration	64,188
Instructional library, media, and technology	63,219
School site administration	454,831
Home-to-school transportation	3,257
Food services	171,723
All other pupil services	1,557,314
Centralized data processing	357,727
All other general administration	1,393,378
Plant services	1,290,538
Total depreciation expense	<u>\$ 13,944,820</u>

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2016 were as follows:

Due To Other Funds	Due From Other Funds							Total
	General Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund		
General Fund	\$ -	\$ 3,695,539	\$ -	\$ 33,000,000	\$ 7,197,301	\$ 3,917,032	\$ -	\$ 47,809,872
Building Fund	-	-	5,295,479	-	-	7,420	-	5,302,899
County School Facilities Fund	-	2,109,009	-	917,460	-	-	-	3,026,469
Special Reserve Fund for Capital Outlay Projects	-	2,398,014	-	-	70,077	-	-	2,468,091
Non-Major Governmental Funds	4,156,433	1,073,945	-	-	36,660	86,278	-	5,353,316
Internal Service Fund	128,913	-	-	-	-	-	-	128,913
Total Due From Other Funds	\$ 4,285,346	\$ 9,276,507	\$ 5,295,479	\$ 33,917,460	\$ 7,304,038	\$ 4,010,730	\$ -	\$ 64,089,560

The General Fund owed the Building Fund for reimbursement of expenditures.	\$ 3,695,539
The General Fund owed the Special Reserve Fund for Capital Outlay Projects for reimbursement of expenditures.	33,000,000
The General Fund owed the Non-Major Adult Education Fund for reimbursement of expenditures.	997
The General Fund owed the Non-Major Child Development Fund for reimbursement of expenditures.	331,855
The General Fund owed the Non-Major Cafeteria Fund for reimbursement of expenditures.	26,226
The General Fund owed the Non-Major Deferred Maintenance Fund for reimbursement of expenditures.	4,000,000
The General Fund owed the Non-Major Capital Facilities Fund for reimbursement of expenditures.	2,838,223
The General Fund owed the Internal Service Fund for reimbursement of expenditures.	3,917,032
The Building Fund owed the County School Facilities Fund for reimbursement of expenditures.	5,295,479
The Building Fund owed the Internal Service Fund for reimbursement of expenditures.	7,420
The County School Facilities Fund owed the Building Fund for reimbursement of expenditures.	2,109,009
The County School Facilities Fund owed the Special Reserve Fund for Capital Outlay Projects for reimbursement of expenditures.	917,460
The Special Reserve Fund for Capital Outlay Projects owed the Building Fund for reimbursement of expenditures.	2,398,014
The Special Reserve Fund for Capital Outlay Projects owed the Non-Major Capital Facilities Fund for reimbursement of expenditures.	70,077
The Non-Major Adult Education Fund owed the General Fund for reimbursement of expenditures.	1,879,870
The Non-Major Adult Education Fund owed the Internal Service Fund for reimbursement of expenditures.	5,691
The Non-Major Child Development Fund owed the General Fund for reimbursement of expenditures.	1,444,542
The Non-Major Child Development Fund owed the Non-Major Cafeteria Fund for reimbursement of expenditures.	36,423
The Non-Major Child Development Fund owed the Internal Service Fund for reimbursement of expenditures.	30,805
The Non-Major Cafeteria Fund owed the General Fund for reimbursement of expenditures.	232,510
The Non-Major Cafeteria Fund owed the Internal Service Fund for reimbursement of expenditures.	49,782
The Non-Major Deferred Maintenance Fund owed the General Fund for reimbursement of expenditures.	250,713
The Non-Major Capital Facilities Fund owed the General Fund for reimbursement of expenditures.	348,798
The Non-Major Capital Facilities Fund owed the Building Fund for reimbursement of expenditures.	1,073,945
The Non-Major Capital Facilities Fund owed the Non-Major Deferred Maintenance Fund for reimbursement of expenditures.	237
The Internal Service Fund owed the General Fund for reimbursement of expenditures.	128,913
Total	\$ 64,089,560

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

Interfund Transfers Out	Interfund Transfers In			Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	
General Fund	\$ -	\$ 48,000,000	\$ 333,210	\$ 48,333,210
Non-Major Governmental Funds	250,713	-	-	250,713
Internal Service Fund	374,345	-	-	374,345
Total Interfund Transfers	\$ 625,058	\$ 48,000,000	\$ 333,210	\$ 48,958,268

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for school improvements.	\$ 48,000,000
The General Fund transferred to the Non-Major Child Development Fund for expenditures incurred.	333,210
The Non-Major Deferred Maintenance Fund transferred to the General Fund for reimbursement of workorder projects.	250,713
The Internal Service Fund transferred to the General Fund for reimbursement of losses.	374,345
Total	\$ 48,958,268

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2016 consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities
Payroll	\$ 19,305,777	\$ 68,749	\$ -	\$ -	\$ 1,573,867	\$ 80,243	\$ -	\$ 21,028,636
Construction	-	9,520,107	-	-	-	-	-	9,520,107
Vendors payable	21,586,146	-	9,105,568	624,966	3,332,539	3,754,286	-	38,403,505
Unmatured interest	-	-	-	-	-	-	5,514,949	5,514,949
Due to grantor government	11,481,505	-	-	-	-	-	-	11,481,505
Total	\$ 52,373,428	\$ 9,588,856	\$ 9,105,568	\$ 624,966	\$ 4,906,406	\$ 3,834,529	\$ 5,514,949	\$ 85,948,702

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 13,761	\$ -	\$ 13,761
State categorical sources	488,213	-	488,213
Local sources	537,099	943,743	1,480,842
Total	\$ 1,039,073	\$ 943,743	\$ 1,982,816

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Balance			Balance		
	July 01, 2015	Additions	Deductions	June 30, 2016	Balance Due	
					In One Year	
Governmental Activities						
General obligation bonds	\$ 245,344,221	\$ 418,999	\$ 3,355,000	\$ 242,408,220	\$ 1,000,000	
Unamortized premium	8,850,688	-	560,563	8,290,125	560,563	
Total general obligation bonds	254,194,909	418,999	3,915,563	250,698,345	1,560,563	
State school building loans	30,000	-	15,000	15,000	15,000	
Capital leases	179,843	-	71,163	108,680	65,041	
Compensated absences	2,889,331	581,979	-	3,471,310	-	
Net OPEB obligation	77,052,560	11,351,167	-	88,403,727	-	
Net pension liability	316,235,331	72,801,635	-	389,036,966	-	
Total	\$ 650,581,974	\$ 85,153,780	\$ 4,001,726	\$ 731,734,028	\$ 1,640,604	

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments on state school building loans are made in the General Fund.
- Payments for capital lease obligations are made in the General Fund.
- Payments for compensated absences are paid from the fund responsible for the employee salary.

A. 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, 2016 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding June 30, 2016
					July 01, 2015	Additions	Deductions	
Election 2010, Series A	September 23, 2010	August 1, 2021	2.00 - 5.25%	\$ 11,900,160	\$ 7,249,221	\$ 418,999	\$ 575,000	\$ 7,093,220
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	2.00 - 5.25%	119,995,000	119,995,000	-	2,780,000	117,215,000
					\$ 245,344,221	\$ 418,999	\$ 3,355,000	\$ 242,408,220

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (continued)

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, 2016, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	732,860	1,267,140	2,000,000
2021	735,750	1,514,250	2,250,000
2022	656,550	1,593,450	2,250,000
Accretion	1,768,060	(1,768,060)	-
Total	\$ 7,093,220	\$ 2,805,530	\$ 9,898,750

The annual requirements to amortize the Series B Build America Bonds payable, outstanding as of June 30, 2016, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Total</u>
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	-	7,123,720	(2,493,302)	4,630,418
2021	-	7,123,720	(2,493,302)	4,630,418
2022 - 2026	7,700,000	34,884,575	(12,209,601)	30,374,974
2027 - 2031	21,500,000	30,774,190	(10,770,967)	41,503,223
2032 - 2036	37,100,000	21,819,265	(7,636,743)	51,282,522
2037 - 2041	51,800,000	8,349,060	(2,922,171)	57,226,889
Total	\$ 118,100,000	\$ 131,445,690	\$ (46,005,992)	\$ 203,539,698

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 8 – LONG-TERM DEBT (continued)

C. Election of 2010, Series C

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

The annual requirements to amortize the Series C general obligation bonds payable, outstanding as of June 30, 2016, are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ -	\$ 5,989,656	\$ 5,989,656
2018	-	5,989,656	5,989,656
2019	-	5,989,656	5,989,656
2020	-	5,989,656	5,989,656
2021	-	5,989,656	5,989,656
2022 - 2026	8,475,000	29,208,281	37,683,281
2027 - 2031	17,835,000	25,766,672	43,601,672
2032 - 2036	31,905,000	19,884,125	51,789,125
2037 - 2041	59,000,000	8,430,450	67,430,450
Total	\$ 117,215,000	\$ 113,237,808	\$ 230,452,808

D. 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, 2016, \$15,000 remains outstanding on the loan.

E. Capital Leases

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

Year Ended June 30,	Lease Payment
2017	\$ 73,493
2018	45,464
Total minimum lease payments	118,957
Less amount representing interest	(10,277)
Present value of minimum lease payments	\$ 108,680

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 8 – LONG-TERM DEBT (continued)

F. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$3,471,310. This amount is included as part of long-term liabilities in the government-wide financial statements.

G. Net Pension Liability

The District’s beginning net pension liability was \$316,235,331 and increased by \$72,801,635 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$389,036,966. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2016:

	General Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable						
Revolving cash	\$ 200,000	\$ -	\$ -	\$ -	\$ 25,576	\$ 225,576
Stores inventory	741,558	-	-	-	266,788	1,008,346
Total non-spendable	941,558	-	-	-	292,364	1,233,922
Restricted						
Educational programs	12,427,991	-	-	-	61,256	12,489,247
Capital projects	-	89,522,199	102,353,284	-	18,702,881	210,578,364
Debt service	-	-	-	-	8,181,429	8,181,429
All others	-	-	-	-	13,789,860	13,789,860
Total restricted	12,427,991	89,522,199	102,353,284	-	40,735,426	245,038,900
Committed						
Stabilization	29,097,516	-	-	-	-	29,097,516
Other commitments	-	-	-	11,000,000	9,865,514	20,865,514
Total committed	29,097,516	-	-	11,000,000	9,865,514	49,963,030
Assigned						
Site LCFF Funds Carryover	3,139,355	-	-	-	-	3,139,355
One-Time Site Grants - I.S. Projects	3,437,283	-	-	-	-	3,437,283
One-Time Site Grants - Textbooks	5,000,000	-	-	-	-	5,000,000
M&O Study - Year 2 Carryover	616,935	-	-	-	-	616,935
Transportation GPS Routing Software	1,000,000	-	-	-	-	1,000,000
Other assignments	-	-	-	43,245,654	-	43,245,654
Total assigned	13,193,573	-	-	43,245,654	-	56,439,227
Unassigned						
Reserve for economic uncertainties	9,699,172	-	-	-	-	9,699,172
Remaining unassigned	32,542,474	-	-	-	-	32,542,474
Total unassigned	42,241,646	-	-	-	-	42,241,646
Total	\$ 97,902,284	\$ 89,522,199	\$ 102,353,284	\$ 54,245,654	\$ 50,893,304	\$ 394,916,725

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, 2016

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	267
Active plan members	3,189
Total*	<u>3,456</u>
 Number of participating employers	 1

*As of July 1, 2015 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 2015-16 the District contributed \$4,891,083 to the plan.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

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	\$ 18,492,094
Interest on net OPEB obligation	3,082,102
Adjustment to annual required contribution	<u>(5,331,946)</u>
Annual OPEB cost (expense)	16,242,250
Contributions made	<u>(4,891,083)</u>
Increase (decrease) in net OPEB obligation	11,351,167
Net OPEB obligation, beginning of the year	<u>77,052,560</u>
Net OPEB obligation, end of the year	<u>\$ 88,403,727</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, 2016 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>
2016	\$ 16,242,250	30%	\$ 88,403,727
2015	\$ 11,461,226	44%	\$ 77,052,560
2014	\$ 11,752,846	28%	\$ 70,605,392

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

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, 2015	\$ -	\$ 139,765,480	\$ 139,765,480	0%	\$ 271,639,558	51%

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.

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	7/1/2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level-percentage of payroll
Remaining Amortization Period	22
Actuarial Assumptions:	
Investment rate of return	4.0%
Discount rate	4.0%
Health care trend rate	6.0%
Inflation rate	2.75%

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 310,648,255	\$ 37,116,223	\$ 30,513,887	\$ 26,016,957
PERS Pension	78,388,711	15,119,280	7,500,516	8,225,801
Total	\$ 389,036,966	\$ 52,235,503	\$ 38,014,403	\$ 34,242,758

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 11 – PENSION PLANS (continued)

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

Benefits provided (continued)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$25,355,206 for the year ended June 30, 2016.

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 \$13,918,034 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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

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

District's proportionate share of the net pension liability	\$ 310,648,255
States's proportionate share of the net pension liability associated with the District	164,298,242
Total	<u>\$ 474,946,497</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.461 percent, which was an increase of 0.019 percent from its proportion measured as of June 30, 2014.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$26,016,957. In addition, the District recognized pension expense and revenue of \$12,723,355 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 25,322,881
Differences between expected and actual experience	-	5,191,006
Changes in proportion and differences between District contributions and proportionate share of contributions	11,761,017	-
District contributions subsequent to the measurement date	25,355,206	-
	<u>\$ 37,116,223</u>	<u>\$ 30,513,887</u>

The \$25,355,206 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 1,960,169	\$ 7,195,888
2018	1,960,169	7,195,888
2019	1,960,169	7,195,888
2020	1,960,169	7,195,888
2021	1,960,169	865,168
2022	1,960,169	865,167
	<u>\$ 11,761,017</u>	<u>\$ 30,513,887</u>

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	<u>100%</u>	

* 10-year geometric average

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 469,054,687	\$ 310,648,255	\$ 178,999,729

Pension plan fiduciary net position

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

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

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

Benefits provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$7,813,047 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$78,388,711 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.532 percent, which was an increase of 0.024 percent from its proportion measured as of June 30, 2014.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$8,225,801. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 2,684,096
Differences between expected and actual experience	4,480,030	-
Changes in assumptions	-	4,816,420
Changes in proportion and differences between District contributions and proportionate share of contributions	2,826,203	-
District contributions subsequent to the measurement date	7,813,047	-
	<u>\$ 15,119,280</u>	<u>\$ 7,500,516</u>

The \$7,813,047 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 2,517,764	\$ 2,331,858
2018	2,517,764	2,331,858
2019	2,270,705	2,165,775
2020	-	671,025
	<u>\$ 7,306,233</u>	<u>\$ 7,500,516</u>

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

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

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

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions (continued)

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Years 11+**</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period
 ** An expected inflation of 3.0% used for this period

Discount rate

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
District's proportionate share of the net pension liability	\$ 127,584,157	\$ 78,388,711	\$ 37,479,410

Pension plan fiduciary net position

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

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

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, 2016.

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, 2016.

C. Construction Commitments

As of June 30, 2016, the District had commitments with respect to unfinished capital projects of \$85,276,667.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in a joint powers authority (JPA), the Southern California Schools Regional Liability Excess Fund (ReLiEF). The relationship between the District and the JPA is such that the JPA is not component unit of the District for financial reporting purposes. ReLiEF arranges for and provides self-funded excess liability and property coverage for approximately seventy public educational agencies with combined average daily attendance of 1,086,589 and property values of approximately \$26.78 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, 2016

NOTE 14 – RISK MANAGEMENT

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

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

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

Related claims paid for the year ended June 30, 2016 were \$1,769,463 for worker's compensation claims, \$31,903,995 for medical and dental claims, and \$4,449,062 for catastrophic claims, bringing total claim payments to \$38,172,521. 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, 2016 to \$12,941,156.

Claims payable and other liabilities in fiscal year 2016 and 2015 were as follows:

	General Liability	Workers' Compensation	Health & Welfare	Total
Liability Balance, July 01, 2015	\$ 473,423	\$ 8,602,230	\$ 4,605,542	\$ 13,681,195
Claims & changes in estimates	-	931,766	32,001,653	32,933,419
Claims payments	-	(1,769,463)	(31,903,995)	(33,673,458)
Liability Balance, June 30, 2016	<u>\$ 473,423</u>	<u>\$ 7,764,533</u>	<u>\$ 4,703,200</u>	<u>\$ 12,941,156</u>
Assets available to pay claims at June 30, 2016				<u>\$ 112,222,291</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 407,802,181	\$ 407,022,589	\$ 407,427,355	\$ 404,766
Federal sources	33,148,744	35,902,087	29,807,563	(6,094,524)
Other state sources	68,630,727	87,599,627	85,438,448	(2,161,179)
Other local sources	6,603,944	12,607,585	11,829,052	(778,533)
Total Revenues	516,185,596	543,131,888	534,502,418	(8,629,470)
EXPENDITURES				
Certificated salaries	224,617,283	240,471,209	234,670,284	5,800,925
Classified salaries	74,172,650	83,835,098	77,189,209	6,645,889
Employee benefits	114,314,964	97,342,132	91,516,114	5,826,018
Books and supplies	37,553,752	56,417,379	34,294,164	22,123,215
Services and other operating expenditures	38,481,759	51,148,894	35,677,139	15,471,755
Capital outlay	4,866,351	14,007,301	5,578,171	8,429,130
Other outgo				
Excluding transfers of indirect costs	5,986,380	7,079,645	7,040,952	38,693
Transfers of indirect costs	(991,463)	(1,174,968)	(1,007,430)	(167,538)
Total Expenditures	499,001,676	549,126,690	484,958,603	64,168,087
Excess (Deficiency) of Revenues Over Expenditures	17,183,920	(5,994,802)	49,543,815	55,538,617
Other Financing Sources (Uses)				
Transfers in	-	625,058	625,058	-
Transfers out	(316,674)	(48,366,229)	(48,333,210)	33,019
Net Financing Sources (Uses)	(316,674)	(47,741,171)	(47,708,152)	33,019
NET CHANGE IN FUND BALANCE	16,867,246	(53,735,973)	1,835,663	55,571,636
Fund Balance - Beginning	83,226,272	96,066,620	96,066,621	1
Fund Balance - Ending	\$ 100,093,518	\$ 42,330,647	\$ 97,902,284	\$ 55,571,637

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2016**

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, 2015	\$ -	\$ 139,765,480	\$ 139,765,480	0%	\$ 271,639,558	51%
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%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.461%	0.442%
District's proportionate share of the net pension liability	\$ 310,648,255	\$ 258,554,380
States's proportionate share of the net pension liability associated with the District	<u>164,298,242</u>	<u>156,126,298</u>
Total	<u>\$ 474,946,497</u>	<u>\$ 414,680,678</u>
District's covered-employee payroll	\$ 236,302,007	\$ 212,147,915
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.5%	121.9%
Plan fiduciary net position as a percentage of the total pension liability.	74.0%	76.5%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.532%	0.508%
District's proportionate share of the net pension liability	\$ 78,388,711	\$ 57,680,951
District's covered-employee payroll	\$ 65,949,600	\$ 59,085,462
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	118.9%	97.6%
Plan fiduciary net position as a percentage of the total pension liability.	79.4%	83.4%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 25,355,206	\$ 18,838,736
Contributions in relation to the contractually required contribution*	(25,355,206)	(18,838,736)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 236,302,007	\$ 212,147,915
Contributions as a percentage of covered-employee payroll	10.73%	8.88%

*Amounts do not include on behalf contributions

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 7,813,047	\$ 6,954,949
Contributions in relation to the contractually required contribution	(7,813,047)	(6,954,949)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 65,949,600	\$ 59,085,462
Contributions as a percentage of covered-employee payroll	11.85%	11.77%

See accompanying note to required supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

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.

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

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

Schedule of District Contributions

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, the District incurred no excesses of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code.

**SUPPLEMENTARY
INFORMATION**

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE
 FOR THE YEAR ENDED JUNE 30, 2016**

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 44 elementary schools, 10 intermediate schools, 7 high schools, 1 continuation high school, 2 special education schools, 1 adult education center, and 1 preschool family campus.

GOVERNING BOARD

Member	Office	Term Expires
George West, Ed.D	President	November, 2016
Teri Rocco	Vice President	November, 2016
Bob Harden	Member	November, 2018
Lan Quoc Nguyen	Member	November, 2018
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, 2016**

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	84.010	14329	\$ 12,985,152
Adult Basic Education & ESL (Section 231)	84.002A	14508	699,057
Adult Secondary Education (Section 231)	84.002	13978	113,308
English Literacy & Civics Education - Local Grant	84.002A	14109	241,072
Subtotal Adult Education			<u>1,053,437</u>
Title II, Part A, Teacher Quality	84.367	14341	2,136,890
Title III			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	2,050,629
Title III, Immigrant Education Program	84.365	15146	127,402
Subtotal Title III			<u>2,178,031</u>
Title IV, Part B, 21st Century Community Learning Centers Program Special Education Cluster	84.287	14681	1,672,080
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	7,748,765
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	38,227
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	516,380
Part B, Preschool Grants	84.173	13430	143,752
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	309,428
Preschool Staff Development	84.173A	13431	2,655
Subtotal Special Education Cluster			<u>8,759,207</u>
IDEA Early Intervention Grants	84.181	23761	110,635
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	510,241
Title X, McKinney-Vento Homeless Assistance	84.196	14332	105,060
Total U. S. Department of Education			<u>29,510,733</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	13390	3,127,765
National School Lunch Program	10.555	13391	13,094,204
Meal Supplements	10.555	*	703,860
USDA Commodities	10.555	*	1,192,913
Subtotal Child Nutrition Cluster			<u>18,118,742</u>
Fresh Fruit and Vegetable Program	10.582	14968	550,648
Total U. S. Department of Agriculture			<u>18,669,390</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Now is the Time (NITT) Advancing Wellness & Resilience in Education	93.243	15289	230,146
Child Development: Federal General and State Preschool	93.596	13609	32,890
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	777,921
Total U. S. Department of Health & Human Services			<u>1,040,957</u>
Total Federal Expenditures			<u>\$ 49,221,080</u>

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

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2016**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	12,512.53	12,529.42
Extended Year Special Education	10.79	10.79
Special Education - Nonpublic Schools	2.51	3.44
Extended Year Special Education - Nonpublic Schools	0.25	0.25
Total TK/K through Third	12,526.08	12,543.90
Fourth through Sixth		
Regular ADA	10,274.61	10,284.93
Extended Year Special Education	36.57	36.57
Special Education - Nonpublic Schools	5.38	5.91
Extended Year Special Education - Nonpublic Schools	0.63	0.63
Total Fourth through Sixth	10,317.19	10,328.04
Seventh through Eighth		
Regular ADA	6,940.43	6,944.26
Extended Year Special Education	11.78	11.78
Special Education - Nonpublic Schools	6.37	6.44
Extended Year Special Education - Nonpublic Schools	1.09	1.09
Total Seventh through Eighth	6,959.67	6,963.57
Ninth through Twelfth		
Regular ADA	13,977.46	13,931.32
Extended Year Special Education	37.51	37.51
Special Education - Nonpublic Schools	17.18	16.82
Extended Year Special Education - Nonpublic Schools	3.37	3.37
Total Ninth through Twelfth	14,035.52	13,989.02
TOTAL SCHOOL DISTRICT	43,838.46	43,824.53

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	Minutes Requirement	2015-16		Status
		Actual Minutes	Number of Days	
Kindergarten	36,000	41,400	180	Complied
Grade 1	50,400	54,890	180	Complied
Grade 2	50,400	54,890	180	Complied
Grade 3	50,400	54,890	180	Complied
Grade 4	54,000	54,890	180	Complied
Grade 5	54,000	54,890	180	Complied
Grade 6	54,000	54,890	180	Complied
Grade 7	54,000	55,660	180	Complied
Grade 8	54,000	55,660	180	Complied
Grade 9	64,800	64,850	180	Complied
Grade 10	64,800	64,850	180	Complied
Grade 11	64,800	64,850	180	Complied
Grade 12	64,800	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, 2016**

	2017 (Budget)	2016	2015	2014
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	\$ 526,673,064	\$ 535,127,476	\$ 458,016,487	\$ 403,973,243
Expenditures And Other Financing Uses	576,271,403	533,291,813	448,647,119	408,539,268
Net change in Fund Balance	\$ (49,598,339)	\$ 1,835,663	\$ 9,369,368	\$ (4,566,025)
Ending Fund Balance	\$ 48,303,945	\$ 97,902,284	\$ 96,066,621	\$ 86,697,253
Available Reserves*	\$ 19,222,324	\$ 42,241,646	\$ 84,172,995	\$ 54,747,198
Available Reserves As A Percentage Of Outgo	3.34%	7.92%	18.76%	13.40%
Long-term Debt	\$ 730,093,424	\$ 731,734,028	\$ 650,581,974	\$ 328,957,001
Average Daily Attendance At P-2	43,389	43,838	44,827	45,631

The General Fund balance has increased by \$11,205,031 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$49,598,339. For a District this size, the State recommends available reserves of at least 2% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$402,777,027 over the past two years.

Average daily attendance has decreased by 1,793 ADA over the past two years. Additional decline of 449 ADA is anticipated during the 2016-17 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, 2016**

	Internal Service Fund
June 30, 2016, annual financial and budget report net position	\$ 117,326,129
Adjustments and reclassifications:	
Increase (decrease) in total net position:	
Net OPEB obligation	(5,103,838)
Net adjustments and reclassifications	(5,103,838)
June 30, 2016, audited financial statement net position	<u>\$ 112,222,291</u>

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Adult Education	Child		Deferred	Capital Facilities	Bond Interest &	Non-Major
	Fund	Development	Cafeteria Fund	Maintenance	Fund	Redemption Fund	Governmental
	Fund	Fund	Fund	Fund	Fund	Fund	Funds
ASSETS							
Cash and investments	\$ 1,778,828	\$ 207,330	\$ 10,481,174	\$ 6,031,627	\$ 19,032,266	\$ 8,181,429	\$ 45,712,654
Accounts receivable	460,585	1,255,588	6,843,209	3,776	250,131	-	8,813,289
Due from other funds	997	331,855	62,649	4,000,237	2,908,300	-	7,304,038
Stores inventory	-	-	266,788	-	-	-	266,788
Total Assets	\$ 2,240,410	\$ 1,794,773	\$ 17,653,820	\$ 10,035,640	\$ 22,190,697	\$ 8,181,429	\$ 62,096,769
LIABILITIES							
Accrued liabilities	\$ 60,665	\$ 261,429	\$ 2,367,135	\$ 152,341	\$ 2,064,836	\$ -	\$ 4,906,406
Due to other funds	1,885,561	1,511,770	282,292	250,713	1,422,980	-	5,353,316
Unearned revenue	-	21,574	922,169	-	-	-	943,743
Total Liabilities	1,946,226	1,794,773	3,571,596	403,054	3,487,816	-	11,203,465
FUND BALANCES							
Non-spendable	-	-	292,364	-	-	-	292,364
Restricted	61,256	-	13,789,860	-	18,702,881	8,181,429	40,735,426
Committed	232,928	-	-	9,632,586	-	-	9,865,514
Total Fund Balances	294,184	-	14,082,224	9,632,586	18,702,881	8,181,429	50,893,304
Total Liabilities and Fund Balance	\$ 2,240,410	\$ 1,794,773	\$ 17,653,820	\$ 10,035,640	\$ 22,190,697	\$ 8,181,429	\$ 62,096,769

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, 2016**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES							
LCHF sources	\$ -	\$ -	\$ -	\$ 4,000,000	\$ -	\$ -	\$ 4,000,000
Federal sources	1,053,437	32,890	18,669,390	-	-	2,317,524	22,073,241
Other state sources	1,454,614	4,196,771	1,291,202	-	-	104,419	7,047,006
Other local sources	262,966	673,699	2,744,488	42,564	7,839,956	11,920,087	23,483,760
Total Revenues	2,771,017	4,903,360	22,705,080	4,042,564	7,839,956	14,342,030	56,604,007
EXPENDITURES							
Current							
Instruction	1,376,515	3,194,112	-	-	-	-	4,570,627
Instruction-related services							
Instructional supervision and administration	49,980	462,995	-	-	-	-	512,975
Instructional library, media, and technology	-	17,597	-	-	-	-	17,597
School site administration	957,050	392,835	-	-	-	-	1,349,885
Pupil services							
Food services	-	-	20,970,512	-	-	-	20,970,512
All other pupil services	7,189	678,580	-	-	-	-	685,769
General administration							
All other general administration	85,131	168,809	753,490	-	75,113	-	1,082,543
Plant services	968	321,642	-	650,174	294,516	-	1,267,300
Facilities acquisition and maintenance	-	-	39,317	547,088	22,833,518	-	23,419,923
Debt service							
Principal	-	-	-	-	-	3,355,000	3,355,000
Interest and other	-	-	-	-	-	13,296,026	13,296,026
Total Expenditures	2,476,833	5,236,570	21,763,319	1,197,262	23,203,147	16,651,026	70,528,157
Excess (Deficiency) of Revenues Over Expenditures	294,184	(333,210)	941,761	2,845,302	(15,363,191)	(2,308,996)	(13,924,150)
Other Financing Sources (Uses)							
Transfers in	-	333,210	-	-	-	-	333,210
Transfers out	-	-	-	(250,713)	-	-	(250,713)
Net Financing Sources (Uses)	-	333,210	-	(250,713)	-	-	82,497
NET CHANGE IN FUND BALANCE	294,184	-	941,761	2,594,589	(15,363,191)	(2,308,996)	(13,841,653)
Fund Balance - Beginning	-	-	13,140,463	7,037,997	34,066,072	10,490,425	64,734,957
Fund Balance - Ending	\$ 294,184	\$ -	\$ 14,082,224	\$ 9,632,586	\$ 18,702,881	\$ 8,181,429	\$ 50,893,304

See accompanying note to supplementary information.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2016**

NOTE 1 – PURPOSE OF SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2016 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2016.

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

	CFDA	
	Number	Amount
	<u> </u>	<u> </u>
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 51,880,804
Medi-Cal Billing Option	93.778	(342,200)
Build America Bonds Interest Subsidy	*	<u>(2,317,524)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$49,221,080</u>

* - CFDA Number is not applicable

Schedule of Average Daily Attendance (ADA)

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, *continued*
JUNE 30, 2016

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, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Schedule of Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

Christy White, CPA

Michael Ash, CPA

Heather Rubio

**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, 2016, and the related notes to the financial statements, which collectively comprise the Garden Grove Unified School District's basic financial statements, and have issued our report thereon dated December 14, 2016.

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.

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State Board of Accountancy*

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.

Christy White Associates

San Diego, California
December 14, 2016

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Garden Grove Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Christy White Associates

San Diego, California
December 14, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on State Compliance

We have audited Garden Grove Unified School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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, 2016, 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 *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Garden Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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State Board of Accountancy*

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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as item #2016-1. Our opinion on state compliance is not modified with respect to these matters.

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

(Continued on the next page)

Procedures Performed (continued)

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

Christy White Associates

San Diego, California
December 14, 2016

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education Cluster</u>
<u>84.367</u>	<u>Title II, Part A, Teacher Quality</u>
<u>84.365</u>	<u>Title III</u>

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>1,476,632</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, 2016**

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, 2016.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2016-1 – EDUCATOR EFFECTIVENESS (40000)

State Program: Educator Effectiveness

Criteria: Per California Senate Bill 103, Section 8 (b)(2)(A), a District receiving educator effectiveness funds must develop and adopt an expenditure plan. The plan must be explained during a public meeting of the governing board of the school district, before the plan’s adoption in a subsequent public meeting.

Condition: During the fiscal year ended June 30, 2016, the District expended educator effectiveness funds. The District did not develop, present, and approve the educator effectiveness plan within the fiscal year where funds were expended.

Cause: District misinterpretation of expenditure plan approval deadline.

Questioned costs: \$461,629, the total educator effectiveness funds expenditures in 2015-16.

Effect: The District is not in compliance with California Senate Bill 103, Senate 8 (b)(2)(A).

Recommendation: We recommend that the District develop an educator effectiveness plan. This plan should then be presented at a public meeting of the governing board, followed by its adoption in a subsequent meeting.

District Response: The district began developing an Educator Effectiveness plan in 2015-2016. By April 2016 we had established a purpose, defined the funding and allowable use of funds, created a plan, and provided a needs assessment, timeline, description and justification of expenditures. We had also identified the staff involved in all components of the grant. The district also scheduled the dates of the public meeting of the governing board to explain the plan, and the date of the subsequent public meeting for adoption. The district believes that it met the conditions of the grant at the time the expenditures occurred. As stated above, the criteria in California Senate Bill 103, Section 8 (b)(2)(A) specifies that a District receiving education effectiveness funds must develop and adopt an expenditure plan. That plan must be explained during a public meeting and subsequently adopted in a public meeting. As the plan had been developed and the meetings have been scheduled, we believed the grant condition had been met.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2015-1 – 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 W of the 2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.

Condition: 4 of 120 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who was classified as FRPM did not have proper supporting documentation to support their designation. When the error is extrapolated over the impacted population (4,696 students), 157 students were identified as ineligible.

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: 157 of 75,362 (37,077 for 2014-15 and 38,246 for 2013-14) students reported in the District’s Unduplicated Pupil Count did not have proper supporting documentation to support their FRPM designation.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2015-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

Questioned Costs: Total questioned costs of \$123,709, calculated as follows:

LCFF Target Base Grant Amount and Pupil Counts		
1) Total Base Grant Amount ⁽¹⁾		360,961,626
	Section 1: UPP	Section 2: UPP
2) Total Enrollment Count from Unduplicated Pupil Percentage Exhibit ⁽²⁾	92,880	93,682
3) Unduplicated Pupil Count from Unduplicated Pupil Percentage Exhibit ⁽³⁾	74,482	75,362
Unduplicated Pupil Percentage Adjustment		
4) Unduplicated Pupil Count	74,482	75,362
5) Number of Unduplicated Pupil Count Adjustment (plus or minus) ⁽⁴⁾	(157)	(157)
6) Adjusted Unduplicated Pupil Count	74,325	75,205
7) Unduplicated Pupil Percentage calculated at P-2	0.8019	0.8044
8) Adjusted Unduplicated Pupil Percentage	0.8002	0.8028
9) Funded UPP (Greater of Section 1 or 2)		0.8028
Target Supplemental Audit Adjustment		
10) Target supplemental grant funding calculated at P-2	-	58,071,506
11) Adjusted target supplemental grant funding	-	57,955,999
12) Target supplemental audit adjustment	-	(115,508)
Target Concentration Audit Adjustment		
13) Target Concentration grant funding calculated at P-2	45,463,117	45,914,319
14) Adjusted target concentration grant funding	45,156,299	45,625,550
15) Target concentration audit adjustment	(306,817)	(288,769)
Value of Adjustment in Current Year		
16) Total target supplemental and concentration audit adjustment	(306,817)	(404,277)
17) Statewide gap funding rate	0.3060000000	0.3060000000
18) Estimated value of unduplicated pupil count audit adjustment for 2014-15	(93,886)	(123,709)

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 proper documentation to support their CALPADS designation.

**GARDEN GROVE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2015-1 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000) (continued)

District Response: The district was unaware that the CALPADS count did not represent the true number of Free and Reduced Price Meal (FRPM) applications due to the inability of CALPADS to append new data. As this is the only table in CALPADS that does not allow automatic updates, our process of rolling over prior year data and updating as new information became available did not report our true count. The district has modified procedures so that prior year data is not sent to CALPADS along with periodic updates.

The new process involves clearing the table that holds the FRPM records in the student information system (Aeries) at the beginning of each year. The Direct Certification and the school lunch program data is then loaded directly into Aeries. Once populated, confirmation is made that the figures in Aeries matches the data in the school lunch application program (WinSNAP). Aeries data is then uploaded into CALPADS only once. Any subsequent changes are manually made in CALPADS.

This ensures that any data posted in CALPADS matches our data in WinSNAP, Aeries, and the district's supporting meal application documentation.

Current Status: Implemented.