

**MEETING AGENDA**  
**Board Audit Committee**

6:00 PM

November 29, 2016

East Side Union High School District Education Center  
Superintendent's Conference Room  
830 North Capitol Avenue  
San Jose, CA 95133-1398

*In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications or accommodations, including auxiliary aids or services, in order to participate in the public meeting of the Audit Committee, please contact the office of the District Superintendent at (408) 347-5011. Notification 72 hours prior to the Special Meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with this meeting in appropriate alternative formats for persons with a disability.*

**1. Call to Order/Roll Call**

**2. Introductions**

**3. Adopt Agenda**

**4. Special Order of Business**

*Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.*

**5. Public Comments**

*Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and 54954.3) preclude any action. As an unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Committee may instruct the Chair to agendize the item for a future meeting.*

**6. Approval of Minutes**

**Action:** Minutes from the August 23, 2016, meeting will be presented for approval.

**Chair / Vice Chair**

**7. Discussion/Action: Updates**

Pattie Cortese, Chair, and Van Le, Vice Chair, will provide update.

**Senior Manager of Internal Controls**

**8. Discussion/Action: Cash Handling and Associated Student Body (ASB)**

Kelly Kwong, Senior Manager of Internal Controls, will provide an update on ASB matters.

**9. Discussion/Action: Fraud, Waste and Abuse Hotline**

Kelly Kwong, Senior Manager of Internal Controls, will report on the status of the Fraud, Waste and Abuse Hotline.

## **External Auditor**

### **10. Discussion/Action: Annual Audit 2015-16**

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the following draft reports for the year ended June 30, 2016:

- 10A. Annual Audited Actual Financial Report
- 10B. 2002 Measure G Fund Annual Financial Report and Performance Audit
- 10C. 2008 Measure E Fund Annual Financial Report and Performance Audit
- 10D. 2012 Measure I Fund Annual Financial Report and Performance Audit
- 10E. 2014 Measure I Fund Annual Financial Report and Performance Audit

## **Superintendent / Associate Superintendent of Business Services**

### **11. Discussion/Action: Resolution of Request for General Fund Assistance for ASB**

Marcus Battle, Associate Superintendent of Business Services, will report on the resolution of the request for the District's general fund to assist with Piedmont Hills High School ASB losses as discussed at the previous Audit Committee meeting on August 23, 2016, Agenda Item 9.

### **12. Discussion/Action: Minority and/or Women Owned Report**

Marcus Battle, Associate Superintendent of Business Services, and Andre Bell, Director of Purchasing and Capital Accounting, will present a report on prequalified vendors that are minority and/or woman owned.

## **Audit Committee Business**

### **13. Discussion/Action: Audit Committee Charter**

Dan Juchau, Member, will present recommendations for changes, if any, to the Audit Committee Charter.

### **14. Discussion/Action: Audit Committee Members – Terms and Appointment Process Review**

Audit Committee will review the terms served by each Member, draft vacancy announcement and application.

- 14A. Member Terms
- 14B. Draft Announcement Seeking Applicants
- 14C. Member Application

### **15. Discussion/Action: Future Meetings**

Audit Committee next scheduled meeting is on April 4, 2017.

### **16. Superintendent Communications/Comments**

- Chris D. Funk, Superintendent
- Marcus Battle, Associate Superintendent of Business Services

### **17. Audit Committee Member Comments**

Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

### **18. Future Agenda Items**

### **19. Adjournment**

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## Minutes of Meeting

### Unapproved

**ITEM 6**

#### Board Audit Committee

August 23, 2016

6:00 PM

East Side Union High School District  
Education Center

Superintendent's Conference Room  
830 Capitol Avenue, San Jose, CA 95133-1398

#### 1. Call to Order /Roll Call

*The meeting was called to order at 6:03 PM by Chair Pattie Cortese.*

*Committee members present for roll call:*

*Chair Cortese, Member Berg, Member Juchau, Member Reinke, and Alternate Member Stephens*

*Vice Chair Van Le arrived at 6:15 PM.*

*Staff present:*

- *Chris Funk*
- *Marcus Battle*
- *Kelly Kwong*
- *Karen Poon*
- *Mary Guillen*

*Presenter present:*

- *Joyce Peters, External Auditor – VTD*
- *Jeff Nigro, CPA, CFE, Partner at Nigro & Nigro, LLP, PC*

*Audience present:*

- *Micheal Reed*

#### 2. Introductions

*Chair Cortese extended a welcome to members of the Audit Committee and audience. Committee Members and members of the audience introduce themselves.*

#### 3. Adopt Agenda

*Items 9 and 14 were heard after item 7.*

**4. Special Order of Business**

Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.

**5. Public Comments**

Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and 54954.3) preclude any action. As a unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Board may instruct the Chair to agendize the item for a future meeting.

*There were no public speakers.*

**6. Approval of Minutes**

Minutes from the April 4, 2016, meeting will be presented for approval.

*Motion by Member Reinke, second by Member Juchau, to approve the Board Audit Committee Minutes of April 4, 2016, as presented.*

*Vote: 5/0; motion carries*

*Vice Chair Le absent; Alternate Member Stephens voting*

**Chair / Vice Chair**

**7. Discussion/Action: Updates**

Pattie Cortese, Chair, and Van Le, Vice Chair, will provide update.

*There were no updates presented under this item.*

**Senior Manager of Internal Controls**

**8. Discussion/Action: Cash Handling and Associated Student Body (ASB)**

Kelly Kwong, Senior Manager of Internal Controls, will provide an update on ASB matters.

*Kelly Kwong, Senior Manager of Internal Controls, shared with the Committee that schools are using ASB Works an online system effective July 1, 2016.*

**9. Discussion/Action: ASB Loss Not Covered by Insurance**

Kelly Kwong, Senior Manager of Internal Controls, and Micheal Reed, Activities Director Piedmont Hills High School, will report on previous monetary loss in ASB that was not covered by insurance.

*Kelly Kwong indicated that Piedmont Hills ASB had a previous year negative ASB equity account balance. For fiscal year 2015-16, it is now a positive equity balance. There are still some unidentifiable assets still on the books that need to be written off. The origination of those items is \$27,000 dated prior to 1999, over 17 years old. There are no records prior to that date. It is not material to the overall financial statement; the external auditor, VTD, will not put a recommendation to this item.*

*Administration has made a recommendation to take care of the item. Mr. Reed has a concern with the decision made by administration. Staff met with Mr. Reed and explained the rationale. Mr. Reed made a request with the Board to discuss this item at the Audit Committee meeting.*

*The recommendation made by Internal Audit and Business Services was to write-off the balance with Piedmont Hills High School ASB funds. Mr. Reed requested that Business Services assist with the write-off. They do not want the amount applied to ASB funds, but to be taken out of general fund. Administration indicated that they would not support Mr. Reed's request and that each site operates independently. There has been no past practice of Business Services assisting the sites. Other sites, over time, have corrected inherited balance errors. There has been no precedent for Business Services to assist the school sites.*

*The step taken for a write-off is that the asset is a debit and will be credited.*

*Micheal Reed, Piedmont Hills Activities Director, presented his concerns to the Audit Committee. He indicated that the entries were made years ago by adults and were phony entries. Their practice was illegal and circumvented the practice of the Associated Student Body at Piedmont Hills High School. ASB has no say in this and they are out \$23,819.07. The students had no say in this expense and, by law, they are supposed to have a say as to how ASB funds are used. Students are going to suffer the loss and always be at a negative balance. He indicated the funds were stolen from students at Piedmont Hills High School. He has been on this issue for approximately five years and will not be letting go of the issue until it is resolved to the benefits of the students at Piedmont Hills High School and that they are treated fairly.*

*Superintendent Funk will have this item brought back at the next Audit Committee and will report the direction taken by staff.*

**10. Discussion/Action: Fraud, Waste and Abuse Hotline**

Kelly Kwong, Senior Manager of Internal Controls, will report on the status of the Fraud, Waste and Abuse Hotline.

*Kelly Kwong reported that the system is still active. A report was made. It is a personnel-related matter and has been referred to Associate Superintendent of Human Resources Cari Vaeth for investigation.*

**11. Discussion/Action: Internal Audit Reports**

Kelly Kwong, Senior Manager of Internal Controls, will present the internal audit reports.

*Kelly Kwong presented the three reports to the Committee.*

**A. FY17-01 Facilities Rental: Custodial Hours Audit Report**

*The suggestion on this report was to see if a deposit could be made. Findings indicate that it is an operational decision. For safety and security reasons a staff person needs to be on the site. The two recommendations are:*

- *Clear communication and oversight*
- *Customer value*

*Business Services has started the development of guidelines.*

**B. FY17-02 Facilities Rental: Revenue versus Cost Audit Report**

*Facilities rental management, by Facilitron, are now in place. The Board Policy will be updated, including a rental cost analysis.*

**C. FY17-03 Staff Time Charged to Bond Audit Report**

*The PARS Forms were reviewed for year 2015-2016. All persons were in line with the allocations, except the Senior Manager of Internal Controls. Her work is based on the annual Audit Work Plan and allocation needs to be reviewed annually.*

**12. Discussion/Action: Proposed Annual Audit Work Plan**

Kelly Kwong, Senior Manager of Internal Controls, will present the Proposed Annual Audit Work Plan for 2016-17.

*Kelly Kwong presented the proposed 2016-2017 Audit Work Plan for recommendations on the audit areas.*

*Member Jon Reinke asked about the percentage worked on each area.*

*Kelly Kwong will review the Work Plan with Associate Superintendent Battle*

**External Auditor**

**13. Discussion/Action: Annual Audit 2015-16**

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present an update from interim testing.

*Joyce Peters, External Auditor, does not have any written reports to present because there are no findings from the interim testing. They audited internal controls, compliance of State and Federal Programs. The financial statement had a minor correction – a duplicate student count, but it had no impact. Final testing will be performed in September.*

**Superintendent / Associate Superintendent of Business Services**

**14. Discussion/Action: Payroll Department Operational Efficiency and Comparative Staffing Review**

Marcus Battle, Associate Superintendent of Business Services, and Jeff Nigro, CPA, CFE, Partner at Nigro & Nigro, LLP, PC, will present the external report Payroll Department Operational Efficiency and Comparative Staffing Review and provide a summary presentation.

*The review was made due to the number of issues with payroll at the beginning of the work year last year. Issues include dues not being deducted, timelines of dues deductions, communication between Human Resources and Payroll, time it took to process/issue retro checks, and the system currently being used. The audit was requested to determine areas of suggested improvement.*

*Jeff Nigro, Nigro & Nigro, presented the external report “Payroll Department Operational Efficiency and Comparative Staffing Review.” Three days of on-site interviews were*

*performed. The review included processes and procedures; and documents. A survey of comparable California districts was performed. Major findings in the report:*

- *Restructuring of Payroll Department*
- *Restructuring of Human Resources Department*
- *Poor communication between departments*
- *Processes are antiquated and outdated; can be automated*

*Major recommendations:*

- *Restructuring of Payroll Department to have a Payroll Manager/Supervisor*
- *Employee benefits area should be handled in Human Resources or separately in Risk Management*
- *Consider increased staffing in Human Resources*
- *More frequent meeting between Human Resources and Payroll Departments*
- *Written policies and procedures*
- *Payroll cycle and deadlines: Recommendation to work with IT Department to increase flexibility between departments*
- *Automate timecard reporting*
- *Internal audits of employee data by Internal Audit*
- *Website portal for employees to access forms*
- *Substitute calling system has a lot of functionality not currently being used by Human Resources; utilize system to its fullest capacity*
- *Standardize resignation forms*
- *Standardize absence reporting forms*
- *Provide annual training to all employees*

*General concepts of internal controls include a separation of duties, cross training of staff and timely reconciliations.*

*A sample of 60 employees from two different months were pulled (all types -- full-time, part-time, hourly, substitute, classified, certificated, management) were reviewed. No exceptions were found.*

*Associate Superintendent Battle stated that a number of changes have already taken place.*

- *Restructuring in Payroll Department*
- *Restructuring in Human Resources; increased staffing in Human Resources*
- *Meetings between Business Services, Payroll, Human Resources and IT Departments have begun and will occur on a monthly basis*

*All recommendations are being reviewed. The District is currently looking at a new financial management system.*

**Audit Committee Business**

**15. Discussion/Action: Future Meetings**

Audit Committee will schedule the next meeting for November or December of 2016.

*The next Board Audit Committee will be held on November 29, 2016, at 6:00 PM in the ESUHSD Superintendent's Conference Room.*

**16. Superintendent Communications/Comments**

- Chris D. Funk, Superintendent
- Marcus Battle, Associate Superintendent of Business Services

**17. Audit Committee Member Comments**

Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

**18. Future Agenda Items**

*The following items were requested for placement on a future agenda:*

<b>Item</b>	<b>Date</b>	<b>Submitted By</b>
<i>List of Prequalified Vendors, to include how many are minority owned and how many are women owned</i>	<i>Tentative date: November 29, 2016</i>	<i>Chair</i>

*Calendared from prior meetings:*

<b>Item</b>	<b>Date</b>	<b>Submitted By</b>
<i>Appoint Subcommittee to review Charter (Dan Juchau will review and make recommendations)</i>	<i>Fall (annually)</i>	<i>Chair</i>

**19. Adjournment**

*Chair Cortese adjourned the meeting at 7:53 PM.*

*Respectfully submitted,*

*Pattie Cortese  
Board Audit Committee Chair*

**EAST SIDE UNION  
HIGH SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2016**

# EAST SIDE UNION HIGH SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
East Side Union High School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Side Union High School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the East Side Union High School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1 to the financial statements, in 2016, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to these matters.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Side Union High School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information including the Schedule of Expenditures of Federal Awards and other supplemental 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 \_\_\_\_\_, 2016, on our consideration of the East Side Union High 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 East Side Union High School District's internal control over financial reporting and compliance.

Palo Alto, California

\_\_\_\_\_, 2016

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Preparing every student to thrive in a global society.

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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This section of East Side Union High School District's (District) annual financial report presents the District's discussion and analysis of its financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*.

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

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

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

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

The *Fiduciary Funds* are agency funds, which are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

The primary unit of the government is the East Side Union High School District.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016**

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### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

The major financial highlights of the current year are as follows:

- The enrollment reported in the California Basic Educational Data System (CBEDS) decreased by 448 from 2014-15 of 23,685 to 23,237 in 2015-16. Second period average daily attendance (commonly known as P-2 ADA) decreased by 408 from 2014-15 of 22,479 to 22,072 in 2015-16; however, the County Special Education program increased 20 ADA.
- The net Local Control Funding Formula (LCFF) ADA base is \$8,578 and supplemental per ADA is \$943 with 53.5% unduplicated count percentage of Economic Disadvantage, Foster Youth, Homeless, English Language Learner and Migrant Education Students.
- The District received a one time discretionary grant in lieu of the Mandated Cost Reimbursement of \$11.9 million.
- The District also received the California Career Pathway Grant of \$5.8 million.
- The District had fully restored the class sizes in 2015-16 back to the same level before the cuts in 2009-10.
- The District provided all employees with a 4.25% salary increase and still covers 100% medical benefit.
- The District monitors the budget conservatively and has a \$40 million unassigned general fund balance that includes \$2 million for the supplemental program balance. The District also has \$3.4 million restricted fund balance for various restricted categorical programs and \$7.8 million in General Reserve for the State required 3% minimum for economic uncertainties.
- 2015-16 was the first year that the District partnering with Educare of California at Silicon Valley to receive supplemental funding from First 5 California through First 5 Santa Clara County to support the infant/toddler programs at the Educare site.

### **REPORTING THE DISTRICT AS A WHOLE**

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

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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

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

**Governmental activities** - Most of the District's services are reported in this category. This includes the education of 9<sup>th</sup> through 12<sup>th</sup> grade students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes and other taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

**Business-type activities** - The District charges fees to help cover the costs of certain services it provides. The District's food services are included in the business-type activities.

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the United States and State Department of Education.

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

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

### THE DISTRICT AS TRUSTEE OR AGENT

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee or agent for funds held on behalf of others, like our funds for retiree benefits, associated student body and student scholarships. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$86.7 million deficit and \$106.6 million deficit for the fiscal years ended June 30, 2016 and 2015, respectively. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Governing Board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's government-wide financial statement.

**Table 1**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current and other assets	\$ 306,912,483	\$ 326,188,154	\$ 26,702	\$ 41,814
Prepays for other post-employment benefits (OPEB)	24,606,664	24,593,565	-	-
Capital assets	646,949,790	620,225,004	-	-
<b>Total Assets</b>	<b>978,468,937</b>	<b>971,006,723</b>	<b>26,702</b>	<b>41,814</b>
Deferred charge on refunding	13,786,393	4,289,091	-	-
Deferred outflows from pension	40,042,332	13,365,308	-	-
<b>Total Deferred Outflows</b>	<b>53,828,725</b>	<b>17,654,399</b>	<b>-</b>	<b>-</b>
Current liabilities	39,009,331	31,367,343	26,702	41,814
Long-term obligations	840,351,961	852,474,661	-	-
Aggregate net pension liability	217,168,630	164,545,903	-	-
<b>Total Liabilities</b>	<b>1,096,529,922</b>	<b>1,048,387,907</b>	<b>26,702</b>	<b>41,814</b>
Deferred inflows from pension	23,459,914	46,854,420	-	-
<b>Total Deferred Intflows</b>	<b>23,459,914</b>	<b>46,854,420</b>	<b>-</b>	<b>-</b>
Net position				
Net investment in capital assets	(6,314,198)	(3,740,598)	-	-
Restricted	78,624,885	65,784,167	-	-
Unrestricted	(160,002,861)	(168,624,774)	-	-
<b>Total Net Position</b>	<b>\$ (87,692,174)</b>	<b>\$ (106,581,205)</b>	<b>\$ -</b>	<b>\$ -</b>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* in the audited financial statements. Table 2 takes the information from the Statement of Activities and rearranges by revenues and expenses.

**Table 2**

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 143,032	\$ 178,157	\$ 1,451,410	\$ 1,393,671
Operating grants and contributions	39,836,701	24,875,282	5,404,903	4,597,716
Capital grants and contributions	3,674,672	56,181	-	-
General revenues				
State and federal sources	132,111,785	109,867,950	-	-
Taxes	159,666,317	143,209,505	-	-
Other general revenues	10,769,185	17,139,179	82,873	473,282
<b>Total Revenues</b>	<b>346,201,692</b>	<b>295,326,254</b>	<b>6,939,186</b>	<b>6,464,669</b>
<b>Expenses</b>				
Instruction related	209,551,946	192,846,184	-	-
Student support services	35,775,109	31,500,462	-	-
Administration	12,212,775	14,064,200	337,291	348,036
Maintenance and operations	25,866,433	21,681,046	-	-
Other outgo	6,285,468	4,461,863	-	-
Food services	-	-	6,601,895	6,116,633
Interest and other	37,620,930	35,586,492	-	-
<b>Total Expenses</b>	<b>327,312,661</b>	<b>300,140,247</b>	<b>6,939,186</b>	<b>6,464,669</b>
<b>Change in Net Position</b>	<b>\$ 18,889,031</b>	<b>\$ (4,813,993)</b>	<b>\$ -</b>	<b>\$ -</b>

### Governmental Activities

As reported in the *Statement of Activities* in the audited financial statements, the cost of all of our governmental activities this year was \$327.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$159.7 million because the cost was paid by those who benefited from the programs (\$0.1 million) or by other governments and organizations who subsidized certain programs with operating and capital grants and contributions (\$43.5 million). We paid for the remaining public benefit portion of our governmental activities with \$142.9 million in Federal and State funds that are not restricted to specific purposes and with other revenues, like interest and general entitlements.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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In Table 3, we have presented the total primary government fund net cost of each of the District's largest functions. As discussed earlier, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	<b>2016</b>	<b>2015</b>
Instruction and related activities	\$ 171,219,075	\$ 168,933,960
Pupil services	32,472,915	31,431,150
General administration	10,922,531	13,193,360
Maintenance and operations	25,369,938	21,629,628
Interest	34,750,706	32,561,555
Other	8,923,091	7,280,974
<b>Totals</b>	<b><u>\$ 283,658,256</u></b>	<b><u>\$ 275,030,627</u></b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$270.2 million, which was a decrease of \$29.8 million from last year. The significant decrease in the combined fund balance was due to the decrease in the building fund balance from on-going construction activities related to the bond programs and the Bond Interest and Redemption Fund.

#### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in June 2016. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report page 74).

The State Local Control Funding Formula (LCFF) revenue is the main funding source or general fund for the general operation expenditures of the District. The net LCFF ADA base is \$8,578 and supplemental per ADA is \$943 with 53.5% unduplicated count percentage of Economic Disadvantage, Foster Youth, Homeless, English Language Learner and Migrant Education Students. The enrollment reported in the California Basic Educational Data System (CBEDS) decreased by 448 from 2014-15 of 23,685 to 23,237 in 2015-16. Second period average daily attendance (commonly known as P-2 ADA) decreased by 408 from 2014-15 of 22,479 to 22,072 in 2015-16.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2016, the District governmental activities had \$646.9 million in a broad range of capital assets. This amount represents a net increase (including additions, deductions and depreciation) of \$26.7 million, or 4.3%, from last year.

**Table 4**

	Governmental Activities	
	2016	2015
Land	\$ 25,442,454	\$ 25,442,454
Construction in progress	58,581,828	23,930,223
Buildings and improvements	757,788,020	743,488,150
Furniture and equipment	33,980,875	32,310,705
Total Assets	875,793,177	825,171,532
Less Accumulated Depreciation	228,843,387	204,946,528
<b>Totals</b>	<b>\$ 646,949,790</b>	<b>\$ 620,225,004</b>

Several capital projects are planned for the 2016-17 and 2017-18 fiscal years. We anticipate capital expenditures to be approximately \$220 million for the two upcoming fiscal years.

#### Major projects completed for fiscal year 2015-16:

- Andrew Hill High School – Baseball Foul Ball Net
- Andrew Hill High School – Weight Room and Drama Room
- Evergreen Valley High School – 12 Portable Classrooms Refurbishing
- Evergreen Valley High School – Parking Speed Hump
- Independence High School – Performing Arts Building F
- Independence High School – Building B Modernization
- Independence High School – Streetscape, Infrastructure, Wayfinding Modernization
- Independence High School – Building L Modernization
- Independence High School – Portable Village
- James Lick High School – Classroom Modernization
- Oak Grove High School – Building U Classroom Modernization
- Oak Grove High School – Building I Theater Modernization
- Oak Grove High School – Alternative Education Mini Campus Improvements
- Yerba Buena High School – College Connection Academy (CCA) New Portable Buildings
- District Wide – Energy Efficiency Upgrades
- District Wide – Security Camera Phase I

## **EAST SIDE UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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The following Measures G, E and I projects are planned for fiscal year 2016-17:

- Andrew Hill High School – Courtyards, Site and Infrastructure Improvements
- Andrew Hill High School – Windows Replacement in Building F (Gym)
- Foothill High School – Building D Computer Lab Modernization
- Foothill High School – Building F Hooper Hall Modernization
- Foothill High School – Quad Upgrade and Infrastructure Improvements
- Evergreen Valley High School – Science Lab and Prep Room Upgrade
- Evergreen Valley High School – Restrooms Renovation
- Evergreen Valley High School – Fire Dampers Upgrade
- Evergreen Valley High School – Energy Management System Upgrade
- Independence High School – Stadium Scoreboard System Replacement
- Independence High School – Pole Vault Replacement Pad
- Independence High School – Alternative Education Facility Upgrades Including Buildings GHK and J
- Oak Grove High School – New Security Fence
- Oak Grove High School – Student Center and Quad Renovation
- Oak Grove High School – Renovate Buildings H1/H2 Restrooms
- Phoenix High School – New Science Classroom/Restroom Building T-100 and Courtyard
- Santa Teresa High School – Upgrades in Multipurpose Building 1300
- Santa Teresa High School – Upgrade Theater Building 600
- Santa Teresa High School – Improve Entry and Upgrade Safety Measures at Student Parking Lot
- Santa Teresa High School – Upgrade Landscape and Hardscape
- Santa Teresa High School – Infrastructure Improvements
- Santa Teresa High School – New Field Concession Building 2300
- Silver Creek High School – New Field Concession Building
- Silver Creek High School – Modernization of Building N
- W.C. Overfelt High School – Modernization of Building J and rename the building to L Building
- Yerba Buena High School – Replacement of Field Concession Building
- Yerba Buena High School – Theater Building 500 Eaves Repair
- District Wide – Tree Trimming
- District Wide – Doors Replacement
- District Wide – Security Camera Upgrade: Phase, 2, 3 and 4
- District Wide – Swimming Pools Modernizations

The following Measures G, E and I projects are planned for fiscal year 2017-18:

- James Lick High School – New Student Center and Quad Modernization
- Piedmont Hills High School – New Classroom Buildings D1/D2
- W.C. Overfelt High School – New Music/Art and Administration Building and Quad Modernization
- Yerba Buena High School – New Student Center and Quad Modernization
- Yerba Buena High School – Infrastructure Upgrade
- District Wide – Roofing Replacements
- District Wide – Fire Alarm Modernization
- District Wide – Mechanical, Electrical

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Long-Term Obligations Other Than Pension Liability**

**Table 5**

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
General obligation bonds	\$ 756,524,725	\$ 776,168,135
Premium	51,038,107	41,978,937
OPEB revenue bonds	29,955,000	30,405,000
Supplemental retirement plan	-	1,076,485
Compensated absences (vacation)	2,834,129	2,846,104
<b>Totals</b>	<b>\$ 840,351,961</b>	<b>\$ 852,474,661</b>

The District’s general obligation bond rating is "A+". The State limits the amount of general obligation debt that districts can issue to 1.25 percent of the assessed value of all taxable property within the District’s boundaries. The District’s outstanding general obligation debt of \$840.4 million is below the statutorily imposed limit.

We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

**Net Pension Liability (NPL)**

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

The District implemented GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27, Accounting for Pension by State and Local Governmental Employers*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68* for the fiscal year ended June 30, 2016. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflows of resources and deferred outflows of resources for each of the above plans as follows:

<b>Pension Plan</b>	<b>Net Pension Liability</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Pension Expense</b>
CalSTRS	\$ 174,993,327	\$ 31,361,683	\$ 17,188,979	\$ 17,508,395
CalPERS	42,175,303	8,680,649	6,270,935	3,323,167
<b>Total</b>	<b>\$ 217,168,630</b>	<b>\$ 40,042,332</b>	<b>\$ 23,459,914</b>	<b>\$ 20,831,562</b>

## **EAST SIDE UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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#### **SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:**

2015-16 is the first year for the District to implement the Local Control Accountability Plan (LCAP). The LCAP is intended to be a comprehensive planning tool to assist with developing goals, actions and plan expenditures related to the state and local priorities. The eight state priorities: Basic Services, Implementation of State Standards, Parental Involvement, Pupil Achievement, Pupil Engagement, School Climate, Course Access and Other Pupil Outcomes, with the overarching goal of preparing all students for college and careers. Some information required in the LCAP is mandated while others are locally defined. The actual annual measurable outcomes were reported in the 2016-17 LCAP report.

Data is common to the Key Performance Measures (KPMs) specified in the District Strategic Plan. The District uses the 2014-15 graduation rates as an LCAP benchmark, LCAP goals and the District KPMs. Over the last several years, the District has seen an increase in graduation rates. The District wide graduation rate of 83% for 2014-15 was 2.2% higher than the average State rate of 80.8%. Also, dropout rates decreased. The dropout rate for the District was 11.7% in 2014-15 compared with 12.1% in 2013-14. Lastly, the District had an increase in the percent of graduates completing the University of California/California State University A-G college course sequence. The District wide rate was 43.1% in 2014-15 compared with 42.2% in 2013-14.

The District encourages all students enrolled in the advanced placement (AP) courses to take the college credit exam. Correlation between college enrollment and exams taken in AP is very high. For 2015-16, a total of 10,353 AP exams were taken and there were a total of 5,392 students who took the exams. This is an increase of 422 exams and 249 students. Using grades 10 to 12 CBEDS enrollment, 30.8% of students took at least one AP exam and of those students, 65.4% scored a 3 out of 5 or higher on at least one exam.

The District waives fees to encourage 10<sup>th</sup> grade students to take the Preliminary Scholastic Aptitude Test (PSAT) which prepares 11<sup>th</sup> graders the following year for the Scholastic Aptitude Test (SAT). Depending on the results, 11<sup>th</sup> grade students who take the PSAT would qualify for college scholarships through the National Merit Scholarship Program. In 2015-16, 94% of 10<sup>th</sup> grade students took the PSAT and 35% met the college readiness indicator.

51.2% of the District's students scored college ready on the SAT in 2014-15, which is 6.9% higher than the State.

The New California Assess of Student Performance and Progress (CAASPP) test for both 2015 and 2016 District Math Standards either met or exceeded the State minimum rates; the District's 2015 and 2016 rates were 39% and 40%, respectively, and were higher than the State rates of 29% and 33%, respectively. The District English Language Arts (ELA)/Literacy rates were 60% and 63% respectively, and higher than the State rates of 56% and 59%.

James Lick High School is a New Tech School and just completed its second year of implementation in 2015-16. Being part of the New Tech Network means that the school has incorporated Project Based Learning in every classroom. Students learn through developing solutions to real world problems. Central to this new student centered learning environment is the culture defining pillars of: Agency, Communication, Collaboration, and Growth Mindset. At the same time, students are focused on gaining content and skills and they are also able to learn how to identify problems and ask questions (Agency), communicate both orally and written in order to reach a larger audience and to demonstrate their learning (Communication), work in dynamic self-driven small teams that identify specific tasks in order to create a project that solves a real world problem (Collaboration) and the students incorporate self-assessment and goal setting in order to embody a mindset of constant improvement (Growth Mindset).

## **EAST SIDE UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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Over the past two years, our students have developed projects that are based on real world needs:

- Presented an evolution/ecology museum showcase at the Children's Discovery Museum and at the San Jose Museum of Modern Art
- Created, published, and presented a children's book to the local elementary schools that used science principals to teach a lesson about acceptance
- Presented a mathematical solution to the school board for creating a new weight room for James Lick High School. The new weight room will be completed in November 2016
- Created a community supported Dia De Los Muertos festival that showcases the students' varied cultures and backgrounds. Over 300 community members come to campus to celebrate this event with the James Lick High School students
- Developed an interactive historical wall that connects the rich history of James Lick High School with each student's potential to create their own history (wall to be completed in April 2017)
- Started a 'get out and vote' campaign for the November 2016 election that included student created door hangers and a door to door campaign to encourage the community to vote

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

The State budget continues to be reflective of steady economic improvement; however, the CalSTRS and CalPERS, the certificated and classified, respectively, personnel retirement systems, employer's rates are going up progressively from 2014-15 through 2021-22. The State does not provide extra funding for the District to cover the increasing obligation.

The LCFF funding gap for 2016-17 is 54.8% with the unduplicated count percentage at 52.9%. The District student enrollment is projected to increase by 73 for 2016-17, but anticipates a downturn in 2017-18 and 2018-19. The projected 2016-2017 and 2017-2018 CBEDS enrollment is 23,310 and 23,157, respectively.

The District projects to receive another one time discretionary grant in lieu of the Mandated Cost Reimbursement of \$5.3 million in 2016-17.

The State will fund the new College Readiness Block Grant with a preliminary rate of \$149.32 per unduplicated pupil count (UPC). The District will receive about \$1.8 million in 2016-17.

The District will receive a \$3.3 million new Career Technical Education Incentive Grant in 2016-17.

The District presented a general obligation bond ballot, Measure Z, in the November 2016 election which passed and will allow the District to improve all East Side Union High School District schools including the Adult Education Centers and the fiscally independent charter schools.

In late May 2016, the District was approved by the Department of Homeland Security to accept F1 visas for international students from outside of the United States of America. The District received over 120 interested student applicants from the promotional campaign for 2016-17. Because the District received the approval in late May 2016, only nine international students were enrolled for 2016-17. The District is launching a series of promotional campaigns and estimates to enroll between 25 to 50 students for 2017-18.

## **EAST SIDE UNION HIGH SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016**

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

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Associate Superintendent of Business Services or Director of Finance, at East Side Union High School District, 830 North Capitol Avenue, San Jose, California, 95133.

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2016

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Deposits and investments	\$ 291,652,811	\$ 1,674,129	\$ 293,326,940
Receivables	10,457,468	652,139	11,109,607
Internal balances	2,380,384	(2,380,384)	-
Prepaid expenses	2,119,422	-	2,119,422
Stores inventories	199,980	80,818	280,798
Other current assets	102,418	-	102,418
Post-employment benefits contributions	24,606,664	-	24,606,664
Capital assets not depreciated	84,024,282	-	84,024,282
Capital assets, net of accumulated depreciation	562,925,508	-	562,925,508
<b>Total Assets</b>	<b>978,468,937</b>	<b>26,702</b>	<b>978,495,639</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	13,786,393	-	13,786,393
Deferred outflows of resources related to pensions	40,042,332	-	40,042,332
<b>Total Deferred Outflows of Resources</b>	<b>53,828,725</b>	<b>-</b>	<b>53,828,725</b>
<b>LIABILITIES</b>			
Accounts payable	21,776,127	26,702	21,802,829
Interest payable	12,243,433	-	12,243,433
Unearned revenue	3,426,857	-	3,426,857
Claims liabilities	1,562,914	-	1,562,914
Current portion of long-term obligations other than pensions	37,913,015	-	37,913,015
Noncurrent portion of long-term obligations other than pensions	802,438,946	-	802,438,946
Aggregate net pension liability	217,168,630	-	217,168,630
<b>Total Liabilities</b>	<b>1,096,529,922</b>	<b>26,702</b>	<b>1,096,556,624</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	23,459,914	-	23,459,914
<b>Total Deferred Inflows of Resources</b>	<b>23,459,914</b>	<b>-</b>	<b>23,459,914</b>
<b>NET POSITION</b>			
Net investment in capital assets	(6,314,198)	-	(6,314,198)
Restricted for:			
Debt service	40,680,331	-	40,680,331
Capital projects	23,854,146	-	23,854,146
Educational programs	4,101,098	-	4,101,098
Self insurance	9,989,310	-	9,989,310
Unrestricted (Note 11)	(160,002,861)	-	(160,002,861)
<b>Total Net Position</b>	<b>\$ (87,692,174)</b>	<b>\$ -</b>	<b>\$ (87,692,174)</b>

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

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 173,134,568	\$ 109,510	\$ 23,286,436	\$ 3,674,672
Instruction-related activities:				
Supervision of instruction	17,579,407	14,878	8,073,044	-
Instructional library and technology	1,052,646	-	72,281	-
School site administration	17,785,325	1,015	3,101,035	-
Pupil services:				
Home-to-school transportation	7,525,323	-	-	-
All other pupil services	28,249,786	14,300	3,287,894	-
Administration:				
Data processing	3,365,202	-	70	-
All other administration	8,847,573	523	1,289,651	-
Maintenance and operations	25,866,433	805	495,690	-
Ancillary services	2,836,718	63	62,815	-
Community services	33,506	576	29,041	-
Interest on long-term obligations	34,750,706	-	-	-
Other outgo	6,285,468	1,362	138,744	-
<b>Total Governmental Activities</b>	<b>327,312,661</b>	<b>143,032</b>	<b>39,836,701</b>	<b>3,674,672</b>
<b>Business-Type Activities:</b>				
Food services	6,601,895	1,380,863	5,142,188	-
Administration	337,291	70,547	262,715	-
<b>Total Business-Type Activities</b>	<b>6,939,186</b>	<b>1,451,410</b>	<b>5,404,903</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 334,251,847</b>	<b>\$ 1,594,442</b>	<b>\$ 45,241,604</b>	<b>\$ 3,674,672</b>

General revenues and subventions:

Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Taxes levied for other specific purposes  
Federal and State aid not restricted to specific purposes  
Interest and investment earnings  
Interagency revenues  
Transfers  
Miscellaneous

**Subtotal General Revenues**

**Change in Net Position**

Net Position - Beginning  
Net Position - Ending

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

**Net Revenues (Expenses) and  
Change in Net Position**

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$(146,063,950)	\$ -	\$(146,063,950)
(9,491,485)	-	(9,491,485)
(980,365)	-	(980,365)
(14,683,275)	-	(14,683,275)
(7,525,323)	-	(7,525,323)
(24,947,592)	-	(24,947,592)
(3,365,132)	-	(3,365,132)
(7,557,399)	-	(7,557,399)
(25,369,938)	-	(25,369,938)
(2,773,840)	-	(2,773,840)
(3,889)	-	(3,889)
(34,750,706)	-	(34,750,706)
(6,145,362)	-	(6,145,362)
<u>(283,658,256)</u>	<u>-</u>	<u>(283,658,256)</u>
-	(78,844)	(78,844)
-	(4,029)	(4,029)
-	(82,873)	(82,873)
<u>(283,658,256)</u>	<u>(82,873)</u>	<u>(283,741,129)</u>
98,575,268	-	98,575,268
59,925,266	-	59,925,266
1,165,783	-	1,165,783
132,111,785	-	132,111,785
1,790,252	-	1,790,252
401,286	-	401,286
(82,873)	82,873	-
<u>8,660,520</u>	<u>-</u>	<u>8,660,520</u>
<u>302,547,287</u>	<u>82,873</u>	<u>302,630,160</u>
18,889,031	-	18,889,031
(106,581,205)	-	(106,581,205)
<u>\$ (87,692,174)</u>	<u>\$ -</u>	<u>\$ (87,692,174)</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 55,699,501	\$ 147,864,842	\$ 52,865,568
Receivables	9,197,191	322,492	58,196
Due from other funds	3,222,177	-	-
Prepaid expenditures	10,353	331,380	-
Stores inventories	199,980	-	-
<b>Total Assets</b>	<b>\$ 68,329,202</b>	<b>\$ 148,518,714</b>	<b>\$ 52,923,764</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 13,121,645	\$ 8,006,263	\$ -
Due to other funds	-	-	-
Unearned revenue	3,333,080	-	-
<b>Total Liabilities</b>	<b>16,454,725</b>	<b>8,006,263</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	212,833	331,380	-
Restricted	3,440,663	140,181,071	52,923,764
Committed	-	-	-
Assigned	-	-	-
Unassigned	48,220,981	-	-
<b>Total Fund Balances</b>	<b>51,874,477</b>	<b>140,512,451</b>	<b>52,923,764</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 68,329,202</b>	<b>\$ 148,518,714</b>	<b>\$ 52,923,764</b>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 25,523,031	\$ 281,952,942
879,589	10,457,468
-	3,222,177
-	341,733
-	199,980
<u>\$ 26,402,620</u>	<u>\$ 296,174,300</u>
\$ 620,467	\$ 21,748,375
841,793	841,793
93,777	3,426,857
<u>1,556,037</u>	<u>26,017,025</u>
-	544,213
24,514,581	221,060,079
330,427	330,427
1,575	1,575
-	48,220,981
<u>24,846,583</u>	<u>270,157,275</u>
<u>\$ 26,402,620</u>	<u>\$ 296,174,300</u>

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 270,157,275</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 875,793,177
Accumulated depreciation is	<u>(228,843,387)</u>
	646,949,790
Costs resulting from advance refunding are expensed in the governmental funds. On the government-wide statements, they are deferred and amortized over the life of the related debt.	
	13,786,393
Deferred inflows and outflows related to pension liability are not due in the current period and therefore are not reported on the governmental funds.	
	16,582,418
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.	
	(12,243,433)
Excess contributions over the annual required contribution (ARC) to the other post-employment benefit trust are recognized as prepaid in the government-wide statements. In the governmental funds, the contributions are treated as expenditures.	
	24,606,664
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	
	9,989,310
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Long-term liabilities at year end consist of:	
General obligation bonds	(756,524,725)
Premium	(51,038,107)
OPEB revenue bonds	(29,955,000)
Compensated absences (vacation)	(2,834,129)
Net pension liability	<u>(217,168,630)</u>
	<u>(1,057,520,591)</u>
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ (87,692,174)</u></u></b>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>
<b>REVENUES</b>			
Local control funding formula	\$ 213,468,854	\$ -	\$ -
Federal sources	12,116,667	-	-
Other State sources	32,032,677	4,235	418,909
Other local sources	9,579,462	1,213,897	59,683,886
<b>Total Revenues</b>	<u>267,197,660</u>	<u>1,218,132</u>	<u>60,102,795</u>
<b>EXPENDITURES</b>			
Current			
Instruction	150,140,187	-	-
Instruction-related activities:			
Supervision of instruction	15,200,426	-	-
Instructional library and technology	902,113	-	-
School site administration	13,398,608	-	-
Pupil services:			
Home-to-school transportation	6,782,519	-	-
All other pupil services	25,179,068	-	-
Administration:			
Data processing	3,007,958	-	-
All other administration	9,150,161	-	-
Maintenance and operations	19,346,666	-	-
Facility acquisition and construction	3,292,468	50,598,060	-
Ancillary services	2,550,660	-	-
Community services	30,418	-	-
Other outgo	5,837,796	-	-
Debt service			
Principal	450,000	-	22,793,043
Interest and other	1,612,303	-	31,506,266
<b>Total Expenditures</b>	<u>256,881,351</u>	<u>50,598,060</u>	<u>54,299,309</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>10,316,309</u>	<u>(49,379,928)</u>	<u>5,803,486</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	(297,672)	-	-
<b>Net Financing Sources (Uses)</b>	<u>(297,672)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	10,018,637	(49,379,928)	5,803,486
<b>Fund Balance - Beginning</b>	41,855,840	189,892,379	47,120,278
<b>Fund Balance - Ending</b>	<u>\$ 51,874,477</u>	<u>\$ 140,512,451</u>	<u>\$ 52,923,764</u>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 213,468,854
1,360,862	13,477,529
11,570,877	44,026,698
2,839,933	73,317,178
15,771,672	344,290,259
5,549,115	155,689,302
530,917	15,731,343
38,083	940,196
2,496,631	15,895,239
-	6,782,519
90,412	25,269,480
-	3,007,958
330,896	9,481,057
540,167	19,886,833
2,492,667	56,383,195
-	2,550,660
-	30,418
-	5,837,796
-	23,243,043
-	33,118,569
12,068,888	373,847,608
3,702,784	(29,557,349)
100,214	100,214
-	(297,672)
100,214	(197,458)
3,802,998	(29,754,807)
21,043,585	299,912,082
\$ 24,846,583	\$ 270,157,275

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

---

**Total Net Change in Fund Balances - Governmental Funds** **\$ (29,754,807)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 50,621,645	
Depreciation expense	<u>(23,896,859)</u>	26,724,786

Proceeds received from refunding bonds are revenues in the governmental funds, but increase long-term obligations in the statement of net position and does not affect the statement of activities. (141,145,000)

Accretion of interest on capital appreciation bonds is recorded as an expense in the government-wide statement of activities, but is not recorded in the governmental funds. (1,719,633)

Premium received from issuance of bonds is a revenue in the governmental funds, but it increases long-term obligations in the statement of net position and does not affect the statement of activities. (16,945,771)

Repayment of the long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

Debt repayments for the year were as follows:

General obligation bonds	162,508,043	
OPEB revenue retirement	450,000	
Supplemental retirement payment	<u>1,076,485</u>	164,034,528

Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The additional interest reported in the statement of activities is the net result of these two factors. 1,079,364

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2016**

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Amortization of premiums of the bonds is not a revenue source in the governmental funds, but is reflected as a revenue in the statement of activities.	7,886,601
Bond defeasance cost is recorded as an expenditure in the governmental funds, but is recorded as a deferred charge on the statement of net position and does not affect the statement of activities.	13,192,034
Amortization of bond defeasance cost is not recognized in the governmental funds. In the government-wide statements, it is amortized over the life of the related bond.	(3,694,732)
In the statement of activities, certain operating expenses - compensated absences (vacation) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$11,975.	11,975
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	(2,257,354)
The underfunded portion of the Other Post-Employment Benefits Annual Required Contribution (ARC) is not recorded in the governmental funds. In the statement of activities, the underfunded portion of the ARC is added to expenses.	13,099
An internal service fund is used by the District's management to charge the costs of the health and dental insurance program to the individual funds. The net gain of the internal service fund is reported with the government-wide activities.	1,757,784
<b>Change in Net Position - Government-Wide Activities</b>	<b><u>\$ 19,182,874</u></b>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Business-Type Activities- Enterprise Fund</b>	<b>Governmental Activities- Internal Service Fund</b>	<b>Memorandum Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Deposits and investments	\$ 1,674,129	\$ 9,699,869	\$ 11,373,998
Receivables	652,139	-	652,139
Prepaid expenses	-	1,777,689	1,777,689
Stores inventories	80,818	-	80,818
Other current assets	-	102,418	102,418
<b>Total Current Assets</b>	<b>2,407,086</b>	<b>11,579,976</b>	<b>13,987,062</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	26,702	27,752	54,454
Due to other funds	2,380,384	-	2,380,384
Claim liabilities	-	1,562,914	1,562,914
<b>Total Current Liabilities</b>	<b>2,407,086</b>	<b>1,590,666</b>	<b>3,997,752</b>
<b>NET POSITION</b>			
Restricted for insurance programs	-	9,989,310	9,989,310
<b>Total Net Position</b>	<b>\$ -</b>	<b>\$ 9,989,310</b>	<b>\$ 9,989,310</b>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Business-Type Activities- Enterprise Fund</b>	<b>Governmental Activities- Internal Service Fund</b>	<b>Memorandum Total</b>
<b>OPERATING REVENUES</b>			
Food sales	\$ 1,451,410	\$ -	\$ 1,451,410
Indistrict contributions	-	3,278,772	3,278,772
Other local revenue	90,532	4,074,137	4,164,669
<b>Total Operating Revenues</b>	<b>1,541,942</b>	<b>7,352,909</b>	<b>8,894,851</b>
<b>OPERATING EXPENSES</b>			
Payroll costs	4,429,257	-	4,429,257
Supplies and materials	2,090,097	23,721	2,113,818
Equipment rental	18,049	39,978	58,027
Claims	-	5,592,833	5,592,833
Other operating expenses	401,783	53,178	454,961
<b>Total Operating Expenses</b>	<b>6,939,186</b>	<b>5,709,710</b>	<b>12,648,896</b>
<b>Operating Income (Loss)</b>	<b>(5,397,244)</b>	<b>1,643,199</b>	<b>(3,754,045)</b>
<b>NONOPERATING REVENUES</b>			
Federal grants	4,941,709	-	4,941,709
State grants	372,662	-	372,662
Other transfer in	82,873	114,585	197,458
<b>Total Nonoperating Revenues</b>	<b>5,397,244</b>	<b>114,585</b>	<b>5,511,829</b>
<b>Change in net position</b>	<b>-</b>	<b>1,757,784</b>	<b>1,757,784</b>
<b>Total Net Position - Beginning</b>	<b>-</b>	<b>8,231,526</b>	<b>8,231,526</b>
<b>Total Net Position - Ending</b>	<b>\$ -</b>	<b>\$ 9,989,310</b>	<b>\$ 9,989,310</b>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Business- Type Activities- Enterprise Fund</b>	<b>Governmental Activities- Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges	\$ 1,536,231	\$ 4,926,085
Cash received from indistrict contributions	-	3,278,772
Cash payments to employees for services	(4,421,613)	-
Cash payments for insurance claims	-	(5,555,441)
Cash payments to suppliers for goods and services	(689,011)	(33,410)
Cash payments for equipment rental	(18,049)	(39,978)
Cash payments for other operating expenses	(401,783)	(53,178)
Net Cash Used For Operating Activities	<u>(3,994,225)</u>	<u>2,522,850</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Operating grants and contributions	4,845,968	-
Cash received from General Fund	82,873	114,585
Net Cash Provided by Financing Activities	<u>4,928,841</u>	<u>114,585</u>
Net increase in cash and cash equivalents	934,616	2,637,435
Cash and cash equivalents - Beginning	739,513	7,062,434
Cash and cash equivalents - Ending	<u>\$ 1,674,129</u>	<u>\$ 9,699,869</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>		
Operating loss	\$ (5,397,244)	\$ 1,643,199
Changes in assets and liabilities:		
Receivables	(5,711)	299
Prepaid expense	-	(194,304)
Stores inventories	10,677	-
Other current assets	-	851,649
Accounts payable	(15,112)	(9,689)
Due to other funds	1,413,165	-
Claims liabilities	-	231,696
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>\$ (3,994,225)</u>	<u>\$ 2,522,850</u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<u>Retiree Benefit Trust Fund</u>	<u>Student Scholarship Trust Fund</u>	<u>Associated Student Body Agency Fund</u>	<u>Memorandum Total</u>
<b>ASSETS</b>				
Deposits and investments	\$ 24,070,303	\$ 626,463	\$ 1,915,723	\$ 26,612,489
<b>LIABILITIES</b>				
Accounts payable	224,399	-	-	224,399
Due to student groups	-	-	1,915,723	1,915,723
<b>Total Liabilities</b>	<u>224,399</u>	<u>-</u>	<u>1,915,723</u>	<u>2,140,122</u>
<b>NET POSITION</b>				
Restricted	<u>\$ 23,845,904</u>	<u>\$ 626,463</u>	<u>\$ -</u>	<u>\$ 24,472,367</u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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	<b>Retiree Benefit Trust Fund</b>	<b>Student Scholarship Trust Fund</b>	<b>Memorandum Total</b>
<b>DEDUCTIONS</b>			
Operating expenditures	\$ 4,288,615	\$ -	\$ 4,288,615
Loss on investment	776,125	23,317	799,442
Scholarships awarded	-	43,439	43,439
<b>Total Deductions</b>	<b>5,064,740</b>	<b>66,756</b>	<b>5,131,496</b>
<b>Change in Net Position</b>	<b>(5,064,740)</b>	<b>(66,756)</b>	<b>(5,131,496)</b>
<b>Net Position - Beginning</b>	<b>28,910,644</b>	<b>693,219</b>	<b>29,603,863</b>
<b>Net Position - Ending</b>	<b>\$ 23,845,904</b>	<b>\$ 626,463</b>	<b>\$ 24,472,367</b>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The East Side Union High School District was organized in 1949 under the laws of the State of California. The District operates under a locally-elected five-member Governing Board form of government and provides educational services to grades 9-12 as mandated by the State and/or Federal agencies. The District operates 11 high schools, 3 adult education sites, 1 independent study program, 4 continuation schools, 7 child care centers and 1 alternative school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. The District determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

#### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

### Non-Major Governmental Funds

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

**Adult Education Fund** The Adult Education Fund is used to account separately for funds committed for adult education purposes.

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

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

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

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

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

**Enterprise Fund** Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the food service operations of the District.

**Internal Service Fund** Internal Service Funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a dental and vision insurance program that is accounted for in an internal service fund.

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

The District operates trust and agency fund types. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for Associated Student Body (ASB) activities. Trust funds are used to account for the assets held by the District under a trust agreement for individuals and therefore not available to support the District's own programs. The District's trust fund is the Student Scholarship Fund and Retiree Benefit Trust Fund.

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

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

### **Cash and Cash Equivalents**

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

### **Investments**

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

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

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

### **Stores Inventories**

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. In general, capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; and equipment, 2 to 10 years.

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Compensated Absences (Vacation)

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

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

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 and are reported as obligations of the funds.

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

### **Debt Issuance Costs, Premiums and Discounts**

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

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Deferred Outflows/Inflows of Resources**

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

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

### **Pensions**

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Fund Balances - Governmental Funds

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

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

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

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

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Governing Board or Associate Superintendent of Business Services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Minimum Fund Balance Policy

In fiscal year 2011-12, the Governing Board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than six percent of General Fund expenditures and other financing uses.

### Spending Order Policy

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

### Net Position

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are food service sales to the enterprise fund and employer contributions to the internal service fund. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### Interfund Activity

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

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

### Estimates

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

### Budgetary Data

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Property Tax

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

### Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP: (1) GASB statements of governmental accounting standards and (2) GASB technical bulletins and implementation guides, as well as guidance from the American Institute of CPAs that is specifically cleared by the GASB. This addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The District has implemented the provisions of this Statement as of June 30, 2016.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### New Accounting Pronouncements

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

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, and No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

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

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

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

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

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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

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

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

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

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

Governmental funds	\$ 281,952,942
Proprietary funds	11,373,998
Fiduciary funds	26,612,489
Total Deposits and Investments	<u>\$ 319,939,429</u>

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

Cash on hand and in banks	\$ 6,817,640
Cash in revolving	2,600
Investments	313,119,189
Total Deposits and Investments	<u>\$ 319,939,429</u>

#### Policies and Practices

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

**General Authorizations**

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

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the county pool and other investment pools and having the pool purchase a combination of shorter term and longer term investments.

Investment Type	Carrying Value	Fair Value	Average Maturity in Years
Mutual Funds	\$ 24,675,584	\$ 24,675,584	0.00
Santa Clara County Investment Pool	288,243,605	288,769,516	1.20
Certificate of Deposits	200,000	200,000	0.21
Total	<u>\$ 313,119,189</u>	<u>\$ 313,645,100</u>	

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

Investment Type	Fair Value	Not Rated
Mutual Funds	\$ 24,675,584	\$ 24,675,584
Santa Clara County Investment Pool	288,769,516	288,769,516
Certificate of Deposits	200,000	200,000
Total	\$ 313,645,100	\$ 313,645,100

### 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 the District. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, District bank balances of \$5,852,690 were exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the pool.

### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably 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.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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

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

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Mutual Funds	\$ 24,675,584	\$ 24,675,584	\$ -	\$ -	\$ 24,675,584
Santa Clara County Investment Pool	288,769,516	-	-	-	288,769,516
Certificate of Deposits	200,000	-	-	-	200,000
<b>Total</b>	<b>\$ 313,645,100</b>	<b>\$ 24,675,584</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 313,645,100</b>

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

### NOTE 4 - RECEIVABLES

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

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Enterprise Fund
Federal Government						
Categorical Aid	\$ 3,307,380	\$ -	\$ -	\$ 451,071	\$ 3,758,451	\$ 596,855
State Government						
Categorical Aid	1,288,155	-	-	226,781	1,514,936	45,652
Lottery	2,498,673	-	-	-	2,498,673	-
Local Government						
Interest	121,502	322,492	-	53,494	497,488	-
Other Local	1,981,481	-	58,196	148,243	2,187,920	9,632
<b>Total</b>	<b>\$ 9,197,191</b>	<b>\$ 322,492</b>	<b>\$ 58,196</b>	<b>\$ 879,589</b>	<b>\$ 10,457,468</b>	<b>\$ 652,139</b>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 25,442,454	\$ -	\$ -	\$ 25,442,454
Construction in progress	23,930,223	43,166,780	8,515,175	58,581,828
Total Capital Assets Not Being Depreciated	<u>49,372,677</u>	<u>43,166,780</u>	<u>8,515,175</u>	<u>84,024,282</u>
Capital Assets Being Depreciated:				
Buildings and building improvement	656,238,863	12,115,430	-	668,354,293
Site improvement	87,249,287	2,184,440	-	89,433,727
Equipment	32,310,705	1,670,170	-	33,980,875
Total Capital Assets Being Depreciated	<u>775,798,855</u>	<u>15,970,040</u>	<u>-</u>	<u>791,768,895</u>
Total Capital Assets	<u>825,171,532</u>	<u>59,136,820</u>	<u>8,515,175</u>	<u>875,793,177</u>
Less Accumulated Depreciation:				
Buildings and building improvement	165,491,290	17,747,217	-	183,238,507
Site improvement	17,436,463	3,540,271	-	20,976,734
Equipment	22,018,775	2,609,371	-	24,628,146
Total Accumulated Depreciation	<u>204,946,528</u>	<u>23,896,859</u>	<u>-</u>	<u>228,843,387</u>
Governmental Activities Capital Assets, Net	<u>\$ 620,225,004</u>	<u>\$ 35,239,961</u>	<u>\$ 8,515,175</u>	<u>\$ 646,949,790</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 15,783,797
Supervision of instruction	1,594,845
Instructional library and technology	95,318
School site administration	1,611,461
Home-to-school transportation	687,613
All other pupil services	2,561,823
All other administration	258,586
Maintenance and operations	3,084
Ancillary services	995,385
Community services	304,947
Total Depreciation Expenses, Governmental Activities	<u>\$ 23,896,859</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

**NOTE 6 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances at June 30, 2016 are as follows:

<u>Due To</u>	<u>Due From General Fund</u>
Non-Major Governmental Funds	\$ 841,793
Enterprise Fund	2,380,384
Total	<u>\$ 3,222,177</u>

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

**Operating Transfers**

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

<u>Transfer Out</u>	<u>Transfer In</u>			<u>Total</u>
	Non-Major Governmental Funds	Enterprise Fund	Internal Service Fund	
General Fund	<u>\$ 100,214</u>	<u>\$ 82,873</u>	<u>\$ 114,585</u>	<u>\$ 297,672</u>

The General Fund transferred to Child Development Fund for contribution.	\$ 100,214
The General Fund transferred to Cafeteria Fund for contribution.	82,873
The General Fund transferred to Self Insurance Fund for contribution.	114,585
	<u>\$ 297,672</u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

**NOTE 7 - DEFERRED CHARGE ON REFUNDING**

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the negative net investment in capital assets amount of \$6,314,198 includes the effect of deferring the recognition of loss from advance refunding. The \$13,786,393 balance of the deferred charge on refunding at June 30, 2016 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

Deferred charge on refunding at June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Deferred charge on refunding	<u>\$ 4,289,091</u>	<u>\$ 13,192,034</u>	<u>\$ 3,694,732</u>	<u>\$ 13,786,393</u>

**NOTE 8 - ACCOUNTS PAYABLE**

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Enterprise Fund	Internal Service Fund
Vendor payables	\$ 5,308,012	\$ 8,006,057	\$ 608,327	\$ 13,922,396	\$ 19,058	\$ 27,752
State apportionment	2,862,598	-	-	2,862,598	-	-
Salaries and benefits	4,951,035	206	12,140	4,963,381	7,644	-
Total	<u>\$ 13,121,645</u>	<u>\$ 8,006,263</u>	<u>\$ 620,467</u>	<u>\$ 21,748,375</u>	<u>\$ 26,702</u>	<u>\$ 27,752</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

**NOTE 9 - UNEARNED REVENUE**

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 285,841	\$ 31,997	\$ 317,838
State categorical aid	1,431,263	61,780	1,493,043
Other local	1,615,976	-	1,615,976
Total	<u>\$ 3,333,080</u>	<u>\$ 93,777</u>	<u>\$ 3,426,857</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General					
obligation bonds	\$ 776,168,135	\$ 142,864,633	\$ 162,508,043	\$ 756,524,725	\$ 32,828,665
Premium	41,978,937	16,945,771	7,886,601	51,038,107	4,569,350
OPEB revenue					
bonds	30,405,000	-	450,000	29,955,000	515,000
Supplemental					
retirement	1,076,485	-	1,076,485	-	-
Accrued					
vacation	2,846,104	-	11,975	2,834,129	-
Subtotal	852,474,661	159,810,404	171,933,104	840,351,961	37,913,015
Pension liabilities	164,545,903	52,622,727	-	217,168,630	-
Total	<u>\$ 1,017,020,564</u>	<u>\$ 212,433,131</u>	<u>\$ 171,933,104</u>	<u>\$ 1,057,520,591</u>	<u>\$ 37,913,015</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on the OPEB revenue bonds are made by the General Fund. Payments on the supplemental retirement plan are made by the General Fund. The accrued vacation will be paid by the fund for which the employee worked.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2016	
				Outstanding July 1, 2015	Accreted/ Issued		
<b>Current Interest Bond</b>							
2003 Refunding	2027	2.0%-5.3%	\$ 97,160,000	\$ 64,800,000	\$ -	\$ 61,960,000	
2006 Refunding	2025	4.0%-5.25%	42,665,000	39,615,000	-	37,640,000	
2007 Refunding	2020	4.0%-5.0%	11,545,000	7,035,000	-	5,215,000	
2008 Series A	2039	4.0%-5.0%	50,000,000	45,135,000	-	2,260,000	
2002 Series H	2034	5.1%-6.0%	18,000,000	16,825,000	-	1,425,000	
2008 Series B	2040	3.0%-5.0%	100,000,000	93,340,000	-	8,600,000	
2010 Refunding	2028	2.0%-5.0%	46,160,000	38,835,000	-	36,465,000	
2008 Series C	2026	4.0%	20,026,088	15,667,676	-	14,444,633	
2008 Series D	2043	2.0%-5.0%	100,000,000	100,000,000	-	99,670,000	
2011 Refunding	2022	3.8%-4.6%	20,135,000	16,655,000	-	14,345,000	
2012 Refunding	2029	2.0%-5.0%	36,735,000	33,360,000	-	31,585,000	
2013 Refunding	2030	3.0%-5.0%	88,145,000	87,565,000	-	86,880,000	
2014 Refunding	2036	2.0%-5.0%	41,400,000	40,620,000	-	39,315,000	
2012 Series A	2039	2.0%-5.0%	20,000,000	18,860,000	-	18,000,000	
2012 Series B	2036	4.0%-5.0%	100,000,000	100,000,000	-	100,000,000	
2014 Series A	2019	5.0%	16,200,000	16,200,000	-	16,200,000	
2015 Refunding	2035	3.0%-5.0%	41,420,000	-	41,420,000	41,420,000	
2016 Refunding A	2033	2.0%-5.0%	16,060,000	-	16,060,000	16,060,000	
2016 Refunding B	2039	2.0%-5.0%	83,665,000	-	83,665,000	83,665,000	
Subtotal				<u>734,512,676</u>	<u>141,145,000</u>	<u>160,508,043</u>	<u>715,149,633</u>
<b>Capital Appreciation</b>							
2002 Series E	2020	4.2%-5.1%	29,999,529	11,530,454	682,686	2,000,000	10,213,140
2002 Series G	2032	4.6%-6.9%	19,997,739	30,125,005	1,036,947	-	31,161,952
Subtotal				<u>41,655,459</u>	<u>1,719,633</u>	<u>2,000,000</u>	<u>41,375,092</u>
Total General Obligation Bonds				<u>\$ 776,168,135</u>	<u>\$ 142,864,633</u>	<u>\$ 162,508,043</u>	<u>\$ 756,524,725</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

**Debt Service Requirements to Maturity**

The bonds mature through 2044 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 31,551,118	\$ 31,564,788	\$ 63,115,906
2018	32,779,322	32,590,157	65,369,479
2019	34,108,152	31,640,168	65,748,320
2020	29,080,722	30,577,643	59,658,365
2021	29,449,944	27,391,458	56,841,402
2022-2026	207,459,963	112,535,184	319,995,147
2027-2031	169,029,312	75,401,173	244,430,485
2032-2036	127,034,332	37,424,291	164,458,623
2037-2041	65,110,000	8,920,784	74,030,784
2042-2044	14,275,000	649,688	14,924,688
Subtotal	<u>739,877,865</u>	<u>\$ 388,695,334</u>	<u>\$ 1,128,573,199</u>
Accretion to date	16,646,860		
Total	<u>\$ 756,524,725</u>		

**Advance Refunding**

On August 4, 2015, the District issued \$41.4 million in General Obligation Bonds with interest rates ranging from 3 percent to 5 percent to advance refund \$41.8 million of outstanding 2008 Series A bonds with interest rates ranging from 4 percent to 5 percent. The net proceeds of \$44,542,518 (after payment of \$341,548 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2008 Series A bonds. As a result, \$41.8 million of the 2008 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the District's long-term liabilities in its statement of net assets. The District advance refunded the 2008 Series A bonds to reduce its total debt service payments over the next 23 years by \$4,863,409 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,505,768.

On May 11, 2016, the District issued \$16.1 million in General Obligation Bonds Series A with interest rates ranging from 2 percent to 5 percent to advance refund \$15 million of outstanding 2002 Series H bonds with interest rates ranging from 5.1 percent to 6 percent. The net proceeds of \$16,703,395 (after payment of \$355,631 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series H bonds. As a result, the \$15 million of 2002 Series H bonds are considered to be defeased and the liability for those bonds has been removed from the District's long-term liabilities in its statement of net assets. The District advance refunded the 2002 Series H bonds to reduce its total debt service payments over the next 15 years by \$2,902,385 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,667,647.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

On May 11, 2016, the District issued \$83.7 million in General Obligation Bonds Series B with interest rates ranging from 2 percent to 5 percent to advance refund \$82.9 million of outstanding 2008 Series B bonds with interest rates ranging from 3 percent to 5 percent. The net proceeds of \$94,978,372 (after payment of \$1,169,307 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2008 Series B bonds. As a result, the \$82.9 million of 2008 Series B bonds are considered to be defeased and the liability for those bonds has been removed from the District's long-term liabilities in its statement of net assets. The District advance refunded the 2008 Series B bonds to reduce its total debt service payments over the next 24 years by \$15,002,387 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$12,379,004.

**Other Post-Employment Benefit (OPEB) Revenue Bonds**

The District issued the bonds to refinance the District's obligation to pay certain healthcare and retirement benefits for certain retired District employees and to pay the costs of issuance of the bonds. The bonds are not subject to debt limitations of the California Constitution and principal of and interest on the bonds is payable from any source of legally available funds of the District, including amounts on deposit in the General Fund of the District.

The outstanding general obligation bonded debt is as follows:

Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Redeemed	Bonds Outstanding June 30, 2016
2036	5.18%-5.32%	\$ 32,050,000	\$ 30,405,000	\$ 450,000	\$ 29,955,000

**Debt Service Requirements to Maturity**

The bonds mature through 2036 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 515,000	\$ 1,588,993	\$ 2,103,993
2018	580,000	1,562,316	2,142,316
2019	655,000	1,532,272	2,187,272
2020	730,000	1,498,343	2,228,343
2021	815,000	1,460,529	2,275,529
2022-2026	5,510,000	6,560,624	12,070,624
2027-2031	8,540,000	4,791,724	13,331,724
2032-2036	12,610,000	2,111,774	14,721,774
Total	\$ 29,955,000	\$ 21,106,575	\$ 51,061,575

**Compensated Absences (Vacation)**

The long-term portion of compensated absences (vacation) for the District at June 30, 2016, amounted to \$2,834,129.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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**Supplemental Early Retirement Plan (SERP)**

In 2011-2012, the District entered into a contract to offer early retirement incentives to some of its employees. The District provides a supplemental early retirement plan in premium annuity contracts with United of Omaha. The contracts were fully paid off during 2016.

**NOTE 11 - UNRESTRICTED NET POSITION AND FUND BALANCES**

Unrestricted net position is composed of the following elements:

	Governmental Activities
General Fund unrestricted fund balance	\$ 48,433,814
Adult Education Fund committed fund balance	288,655
Deferred Maintenance Fund committed fund balance	41,772
Special Reserve Fund for Capital Outlay Projects assigned fund balance	1,575
Post-employment benefits contributions	24,606,664
Other post-employment benefit revenue bonds	(29,955,000)
Compensated absences	(2,834,129)
Subtotal before GASB Statement No. 68 implementation	40,583,351
Net deferred outflow (inflow) of resources from pension activities	16,582,418
Net pension liability	(217,168,630)
Total after GASB Statement No. 68 implementation	<u>\$ (160,002,861)</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

Governmental Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Stores inventories	199,980	-	-	-	199,980
Prepaid expenditures	10,353	331,380	-	-	341,733
<b>Total Nonspendable</b>	<b>212,833</b>	<b>331,380</b>	<b>-</b>	<b>-</b>	<b>544,213</b>
<b>Restricted</b>					
Legally restricted	3,440,663	-	-	660,435	4,101,098
Capital projects	-	140,181,071	-	23,854,146	164,035,217
Debt services	-	-	52,923,764	-	52,923,764
<b>Total Restricted</b>	<b>3,440,663</b>	<b>140,181,071</b>	<b>52,923,764</b>	<b>24,514,581</b>	<b>221,060,079</b>
<b>Committed</b>					
Adult education program	-	-	-	288,655	288,655
Deferred maintenance	-	-	-	41,772	41,772
<b>Total Committed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>330,427</b>	<b>330,427</b>
<b>Assigned</b>					
Capital projects	-	-	-	1,575	1,575
<b>Total Assigned</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,575</b>	<b>1,575</b>
<b>Unassigned</b>					
Reserve for economic uncertainties	7,767,145	-	-	-	7,767,145
Remaining unassigned	40,453,836	-	-	-	40,453,836
<b>Total Unassigned</b>	<b>48,220,981</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,220,981</b>
<b>Total</b>	<b>\$ 51,874,477</b>	<b>\$ 140,512,451</b>	<b>\$ 52,923,764</b>	<b>\$ 24,846,583</b>	<b>\$ 270,157,275</b>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### NOTE 12 - POST-EMPLOYMENT HEALTH CARE PLAN AND OTHER POST-EMPLOYMENT BENEFITS (OPEB) OBLIGATION

#### Plan Description

The Post-Employment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the East Side Union High School District. The Plan provides medical insurance benefits to eligible retirees. Benefits currently are offered to employees who attain age 55 with at least 20 years of service. For grandfathered employees, benefits are offered for lifetime. Whereas, under the new plan agreements, which cover the majority of the plan beneficiaries, benefits are offered until age 65. Classified employees who retired before July 1, 1994 and other non-classified employees who retired before September 1, 1990 receive spousal benefits. Members of the Plan, based on actuarial information, consists of 452 retirees and beneficiaries currently receiving benefits and 1,356 active plan members. The Plan is presented in these financial statements as the Retiree Benefit Trust Fund. Separate financial statements are not prepared.

#### Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the East Side Teacher Association (ESTA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund as determined annually through the agreements between the District, ESTA, and CSEA. In the current year, the District's contribution was only in the form of a pay-as-you-go in the amount of \$4,637,461.

#### Annual OPEB Cost and Net OPEB Asset

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. 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 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset to the Plan:

Annual required contribution	\$ (3,781,299)
Interest on OPEB asset	1,185,969
Adjustment to annual required contribution	(2,029,032)
Annual OPEB cost	(4,624,362)
Contributions made	4,637,461
Increase in net OPEB asset	13,099
Net OPEB asset, beginning of year	24,593,565
Net OPEB asset, end of year	\$ 24,606,664

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for the past six years were as follows:

Year Ended June 30,	Amount Contributed	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2016	\$ 4,637,461	\$ 4,624,362	100%	\$ 24,606,664
2015	4,417,982	4,536,644	131%	24,593,565
2014	5,277,367	4,039,123	131%	24,712,227
2013	5,763,422	4,023,954	143%	23,473,983
2012	5,893,200	4,576,907	129%	21,734,515
2011	5,164,563	4,569,074	113%	20,418,222

### Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ 28,179,981	\$ 54,761,544	\$ 26,581,563	51.46%	\$ 147,970,440	18%

### 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.

In the July 1, 2014 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable Retiree Benefit Trust Fund invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial 7 percent to an ultimate 5.5 percent. The UAAL is being amortized as a level dollar of payroll. The remaining amortization period at July 1, 2014, was 26 years on a closed basis. As of June 30, 2016, the Retiree Benefit Trust Fund held net position in the amount of \$23,845,904, all of which were invested with the Self Insured Schools of California (SISC), in which the majority of the amounts are invested in mutual funds.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 13 - RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted with Northern California Regional Liability Excess Fund for property and liability insurance coverage. Settled claims have not exceeded the commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2016, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Santa Clara County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Group selection criteria.

#### Claims Liabilities

The District records an estimated liability for its self-insured health benefit programs. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

#### Unpaid Claims Liabilities

The Internal Service Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District's self-insured dental and vision insurance program from July 1, 2014 to June 30, 2016:

	<u>Health Benefits</u>
Liability Balance, July 1, 2014	\$ 1,358,743
Claims and changes in estimates	10,054,957
Claim payments	<u>(10,082,482)</u>
Liability Balance, June 30, 2015	1,331,218
Claims and changes in estimates	12,990,982
Claim payments	<u>(12,759,286)</u>
Liability Balance, June 30, 2016	1,562,914
Assets available to pay claims at June 30, 2016	<u><u>\$ 11,552,224</u></u>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 174,993,327	\$ 31,361,683	\$ 17,188,979	\$ 17,508,395
CalPERS	42,175,303	8,680,649	6,270,935	3,323,167
Total	<u>\$ 217,168,630</u>	<u>\$ 40,042,332</u>	<u>\$ 23,459,914</u>	<u>\$ 20,831,562</u>

The details of each plan are as follows:

#### **California State Teachers' Retirement System (CalSTRS)**

##### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

##### **Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2 percent of final compensation for each year of credited service.

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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

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

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

**Contributions**

For required members, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with Assembly Bill 1469, *State Teachers' Retirement: Defined Benefit Program*, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$12,804,206.

**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 net pension liability	\$ 174,993,327
State's proportionate share of the net pension liability associated with the District	92,552,179
Total net pension liability, including State share	<u>\$ 267,545,506</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.25993 percent and 0.23020 percent, resulting in a net increase in the proportionate share of 0.0297 percent.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

For the year ended June 30, 2016, the District recognized pension expense of \$17,508,395. In addition, the District recognized pension expense and revenue of \$7,328,411 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 12,804,206	\$ -
Net change in proportionate share of net pension liability	18,557,477	-
Difference between projected and actual earnings on pension plan investments	-	14,264,799
Differences between expected and actual experience in the measurement of the total pension liability on plan investments	-	2,924,180
Total	<u>\$ 31,361,683</u>	<u>\$ 17,188,979</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 5,903,919
2018	5,903,919
2019	5,903,918
2020	(3,446,957)
Total	<u>\$ 14,264,799</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members and are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 2,605,550
2018	2,605,550
2019	2,605,550
2020	2,605,550
2021	2,605,550
Thereafter	2,605,547
Total	<u>\$ 15,633,297</u>

**Actuarial Methods and Assumptions**

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

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

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP-2000 Mortality Table series tables adjusted to fit CalSTRS experience.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary’s investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers’ Retirement Board of the California State Teachers’ Retirement System (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 ten 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:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
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%
Liquidity	1%	0.00%
	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.6 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.6 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.6%)	\$ 264,226,304
Current discount rate (7.6%)	\$ 174,993,327
1% increase (8.6%)	\$ 100,833,523

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

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

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

**Benefits Provided**

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

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

	<u>School Employer Pool (CalPERS)</u>	
	<u>On or before December 31, 2012</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7%	6%
Required employer contribution rate	11.847%	11.847%

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

**Contributions**

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$3,814,940.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$42,175,303. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the Districts long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.28613 percent and 0.26448 percent, resulting in a net increase in the proportionate share of 0.02165 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$3,323,167. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,814,940	\$ -
Net change in proportionate share of net pension liability	2,455,328	2,235,449
Difference between projected and actual earnings on pension plan investments	-	1,444,118
Differences between expected and actual experience in the measurement of the total pension liability	2,410,381	-
Changes of assumptions	-	2,591,368
Total	\$ 8,680,649	\$ 6,270,935

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 1,058,610
2018	1,058,610
2019	1,058,610
2020	(1,731,712)
Total	<u>\$ 1,444,118</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (392,296)
2018	(274,641)
2019	705,829
Total	<u>\$ 38,892</u>

**Actuarial Methods and Assumptions**

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

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and forestland	2%	4.50%
Liquidity	2%	-0.55%
	<u>100%</u>	

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 68,643,819
Current discount rate (7.65%)	\$ 42,175,303
1% increase (8.65%)	\$ 20,164,963

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Public Agency Retirement System (PARS) (Define Contribution Plan)

As established by Federal law, all public sector employees who are not members of either CalSTRS or CalPERS must be covered by social security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and employee vest immediately. For employees who are members of PARS, the District and the employee each contribute 6.2 percent of the employee's gross earnings towards social security.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$7,328,411, \$5,507,987, and \$5,644,087 (7.12589, 5.679, and 5.541 percent of annual payroll) for the years ending June 30, 2016, 2015 and 2014, respectively. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been recorded in the financial statements, but are not included in the budgeted revenues and expenditures of the District. These amounts have been excluded from the computation of the available reserves percentage.

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

The District is a member of Northern California Regional Liability Excess Fund JPA (Nor Cal ReLiEF), Santa Clara County Schools Insurance Group and Metropolitan Education District. The District pays an annual premium to the North California Regional Liability Excess Fund for its property liability insurance and Santa Clara County Schools Insurance Group for its workers' compensation coverage. In addition, the Metropolitan Education District operates the vocational classes for the District. The relationships among the District, the pools and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities. The District has appointed one board member to the governing board of Metropolitan Education District.

During the year ended June 30, 2016, the District made payments of \$1,433,283 and \$3,003,355 to North California Regional Liability Excess Fund and Santa Clara County Schools Insurance Group, respectively. Payments to the Metropolitan Education District were transferred to them directly from the County Office of Education.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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### **NOTE 16 - COMMITMENTS AND CONTINGENCIES**

#### **Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

#### **Litigation**

The District is also involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

#### **Construction Commitments**

As of June 30, 2016, the District had construction commitments in the amount of \$65,384,192.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Favorable (Unfavorable) Variances</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
<b>REVENUES</b>				
Local control funding formula	\$ 213,495,630	\$ 213,313,058	\$ 213,468,854	\$ 155,796
Federal sources	12,017,842	12,235,194	12,116,667	(118,527)
Other State sources	21,959,570	32,331,011	32,032,677	(298,334)
Other local sources	6,955,507	9,229,130	9,525,672	296,542
<b>Total Revenues</b>	<b>254,428,549</b>	<b>267,108,393</b>	<b>267,143,870</b>	<b>35,477</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	117,143,354	119,279,899	118,937,467	342,432
Classified salaries	30,092,314	30,813,023	30,303,548	509,475
Employee benefits	60,864,792	67,153,735	67,150,518	3,217
Books and supplies	6,410,344	6,303,651	5,940,868	362,783
Services and operating expenditures	21,444,176	24,339,570	23,894,450	445,120
Other outgo	3,218,525	3,528,733	3,107,308	421,425
Capital outlay	3,133,125	5,609,871	5,484,889	124,982
Debt service - principal	450,000	450,000	450,000	-
Debt service - interest	1,612,303	1,612,303	1,612,303	-
<b>Total Expenditures</b>	<b>244,368,933</b>	<b>259,090,785</b>	<b>256,881,351</b>	<b>2,209,434</b>
<b>Excess of Revenues Over Expenditures</b>	<b>10,059,616</b>	<b>8,017,608</b>	<b>10,262,519</b>	<b>2,244,911</b>
<b>Other Financing Uses:</b>				
Transfers out	(759,965)	(609,845)	(447,672)	162,173
<b>Net Financing Uses</b>	<b>(759,965)</b>	<b>(609,845)</b>	<b>(447,672)</b>	<b>162,173</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>9,299,651</b>	<b>7,407,763</b>	<b>9,814,847</b>	<b>2,407,084</b>
<b>Fund Balance - Beginning</b>	<b>34,292,485</b>	<b>34,292,485</b>	<b>34,292,485</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 43,592,136</b>	<b>\$ 41,700,248</b>	<b>44,107,332</b>	<b>\$ 2,407,084</b>
<b>Special Reserve - Other Than Capital Outlay Projects</b>			<b>7,767,145</b>	
<b>Fund Balance - Ending - GAAP</b>			<b>\$ 51,874,477</b>	

See accompanying note to required supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ 28,179,981	\$ 54,761,544	\$ 26,581,563	51.46%	\$ 147,970,440	18%
July 1, 2012	26,861,167	55,163,201	28,302,034	48.69%	136,675,675	21%
July 1, 2010	27,223,353	65,140,176	37,916,823	41.79%	131,629,079	29%

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See accompanying note to required supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

MEASUREMENT DATE	June 30, 2015	June 30, 2014
<b>CalSTRS</b>		
District's proportion of the net pension liability	0.25993%	0.23020%
District's proportionate share of the net pension liability	\$ 174,993,327	\$ 134,521,149
State's proportionate share of the net pension liability associated with the District	92,552,179	81,229,677
Total	<u>\$ 267,545,506</u>	<u>\$ 215,750,826</u>
District's covered - employee payroll	<u>\$ 111,165,728</u>	<u>\$ 102,842,026</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>157.42%</u>	<u>130.80%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	0.28613%	0.26448%
District's proportionate share of the net pension liability	\$ 42,175,303	\$ 30,024,754
District's covered - employee payroll	<u>\$ 29,702,119</u>	<u>\$ 27,540,541</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>141.99%</u>	<u>109.02%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 12,804,206	\$ 9,869,073
Contributions in relation to the contractually required contribution	(12,804,206)	(9,869,073)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 119,337,685</u>	<u>\$ 111,165,728</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 3,814,940	\$ 3,496,235
Contributions in relation to the contractually required contribution	(3,814,940)	(3,496,235)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 33,120,771</u>	<u>\$ 29,702,119</u>
Contributions as a percentage of covered - employee payroll	<u>11.52%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016**

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### **NOTE 1 - PURPOSE OF SCHEDULES**

#### **Budgetary Comparison Schedule**

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

#### **Schedule of Other Post-employment Benefits (OPEB) Funding Progress**

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

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

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

#### **Schedule of District Pension Contributions**

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

#### **Changes in Benefit Terms**

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

#### **Changes in Assumptions**

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

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***SUPPLEMENTARY INFORMATION***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Direct Grants:			
Promoting Readiness of Minors in Supplemental Security	84.418P	<sup>1</sup>	\$ 202,500
Passed-Through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	4,714,853
Title I, Part C, Migrant Education	84.011	14326	370,924
Title II, Part A, Teacher Quality	84.367	14341	642,466
Title III, Limited English Proficiency	84.365	14346	\$ 371,099
Title III, Immigrant Education Program	84.365	15146	<u>59,388</u>
Total English Language Acquisition State Grants			430,487
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,634,383
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	<u>341,893</u>
Total Special Education Cluster			3,976,276
Carl Perkins Act:			
Secondary, Section 131	84.048	14894	555,350
Adult, Section 132	84.048	14893	<u>17,313</u>
Total Carl Perkins Grant			572,663
Adult Education Act:			
Adult Secondary Education	84.002	13978	242,482
Adult Basic Education and English as Second Language	84.002A	14508	<u>522,488</u>
Total Adult Education Cluster			764,970
Total Pass-Through Grants			<u>11,472,639</u>
Total U.S. Department of Education			<u>11,675,139</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed-Through California Department of Education:			
Child Development Act:			
Head Start	93.600	10016	192,000
Medi-Cal Billing Option	93.778	10013	115,241
Federal Child Care, Center-Based	93.575	15136	303,237
Race to the Top (Early Learning Challenge)	84.412	15181	<u>100,655</u>
Total U.S. Department of Health and Human Services			<u>711,133</u>

See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed-Through California Department of Education:			
Child Nutrition Act:			
Needy Breakfast	10.553	13390	1,245,370
National School Lunch	10.555	13523	3,095,568
Meal Supplement	10.556	13568	9,734
Commodity Supplemental Food Program <sup>2</sup>	10.555	13534	<u>248,129</u>
Total Child Nutrition Cluster			4,598,801
Child and Adult Care Food Program	10.558	13393	<u>591,037</u>
Total U.S. Department of Agriculture			<u>5,189,838</u>
<b>U.S. DEPARTMENT OF REHABILITATION</b>			
Passed-Through California Department of Education:			
Workability II, Transition Partnership	84.126	10006	338,903
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Direct Grants:			
Junior Reserve Officer Training Corp (JROTC)	12.357	<sup>1</sup>	<u>543,922</u>
Total Expenditures of Federal Awards			<u><u>\$ 18,458,935</u></u>

<sup>1</sup> These grants are direct grants. Pass-through entity identifying numbers are not available.

<sup>2</sup> Not recorded in the financial statements.

See accompanying note to supplementary information.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

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### ORGANIZATION

The East Side Union High School District was organized in 1949 under the laws of the State of California. The District operates under a locally-elected five-member Governing Board form of government and provides educational services to grades 9-12 as mandated by the State and/or Federal agencies. The District operates 11 high schools, 3 adult education sites, 1 independent study program, 4 continuation schools, 7 child care centers and 1 alternative school.

### BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Lan Nguyen	President	2016
Frank Biehl	Vice President	2018
J. Manual Herrera	Clerk	2018
Pattie Cortese	Member	2016
Van T. Le	Member	2018

### ADMINISTRATION

Chris D. Funk	Superintendent
Marcus Battle	Associate Superintendent of Business Services
Glenn Vander Zee	Associate Superintendent of Educational Services
Cari Vaeth	Associate Superintendent of Human Resources

See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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	Final Report	
	Second Period Report	Annual Report
9th Through 12th		
Regular ADA	21,979.44	21,847.42
Extended Year Special Education	33.77	33.77
Special Education, Nonpublic, Nonsectarian Schools	54.25	59.16
Extended Year Special Education, Nonpublic, Nonsectarian Schools	4.07	4.07
Total ADA	<u>22,071.53</u>	<u>21,944.42</u>

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See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 9	64,800	64,875	180	Not applicable	Complied
Grade 10	64,800	64,875	180	Not applicable	Complied
Grade 11	64,800	64,875	180	Not applicable	Complied
Grade 12	64,800	64,875	180	Not applicable	Complied

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See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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Summarized below are the fund balance reconciliations between the Unaudited Annual Financial and Budget Report and the Audited Financial Statements.

	General Fund	Special Reserve Other Fund	Building Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCE</b>			
Balance, June 30, 2016, Unaudited Actuals	\$ 44,107,332	\$ 7,767,145	\$ 140,201,907
As required by GASB Statement No. 54, the District consolidated Fund 17, Special Reserve Fund for Other Than Capital Outlay into General Fund	7,767,145	(7,767,145)	-
Increase in Prepaid Expenditures	-	-	310,544
Balance, June 30, 2016, Audited Financial Statements	<u>\$ 51,874,477</u>	<u>\$ -</u>	<u>\$ 140,512,451</u>

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See accompanying note to supplementary information.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

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

	Budgeted 2017 <sup>1</sup>	Actual 2016	Actual 2015	Actual 2014
<b>GENERAL FUND</b>				
Revenues	\$ 262,831,142	\$ 257,564,408	\$ 236,201,709	\$ 219,885,319
Other sources	4,161,155	9,579,462	7,181,114	6,903,132
Total Revenues and Other Sources	266,992,297	267,143,870	243,382,823	226,788,451
Expenditures	275,613,399	256,881,351	241,841,002	216,137,590
Other uses and transfers out	1,230,034	447,672	599,928	516,364
Total Expenditures and Other Uses	276,843,433	257,329,023	242,440,930	216,653,954
Increase In Fund Balance	\$ (9,851,136)	\$ 9,814,847	\$ 941,893	\$ 10,134,497
Ending Fund Balance	\$ 34,256,196	\$ 44,107,332	\$ 34,292,485	\$ 33,350,592
Available Reserves <sup>2</sup>	\$ 38,369,845	\$ 48,220,981	\$ 38,575,811	\$ 38,998,523
Available Reserves as a percentage of total Outgo <sup>3</sup>	13.86%	18.74%	15.91%	18.00%
Long-Term Obligations	\$ 1,019,607,576	\$ 1,057,520,591	\$ 1,017,020,564	\$ 743,736,709
Average Daily Attendance At P-2	22,053	22,072	22,479	22,371

The General Fund balance has increased by \$10,756,740 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$9,851,136. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past three years, but anticipates operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by \$313,783,882 over the past two years. The increase in long-term obligations is mainly due to the \$116.2 million new general obligation bond issuance during 2015-2016 and \$217.2 million of pension liability recognition.

Average daily attendance has decreased by 299 over the past two years. A decrease of 19 ADA is anticipated during fiscal year 2016-2017.

<sup>1</sup> First Interim Budget 2017 is included for analytical purposes only and has not been subjected to an audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Capital Outlay Projects.

See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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Name of Charter School	Included in Audit Report
ACE Charter High School	No
Alpha Cindy Avitia High School	No
B. Roberto Cruz Leadership Academy	No
Escuela Popular Accelerated Family Learning	No
Escuela Popular/Center for Training and Careers Family Learning	No
KIPP San Jose Collegiate	No
Latino College Preparatory Academy	No
Luis Valdez Leadership Academy	No
San Jose Conservation Corps Charter	No
Summit Rainier	No

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See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 594,452	\$ 836,375	\$ 44,261
Receivables	463,281	365,663	97
<b>Total Assets</b>	<b>\$ 1,057,733</b>	<b>\$ 1,202,038</b>	<b>\$ 44,358</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 108,643	\$ 266,468	\$ 2,586
Due to other funds	-	841,793	-
Unearned revenue	-	93,777	-
<b>Total Liabilities</b>	<b>108,643</b>	<b>1,202,038</b>	<b>2,586</b>
<b>Fund Balances:</b>			
Restricted	660,435	-	-
Committed	288,655	-	41,772
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>949,090</b>	<b>-</b>	<b>41,772</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,057,733</b>	<b>\$ 1,202,038</b>	<b>\$ 44,358</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Total Non-Major Governmental Funds</b>
\$ 10,210,802	\$ 13,835,569	\$ 1,572	\$ 25,523,031
20,487	30,058	3	879,589
<u>\$ 10,231,289</u>	<u>\$ 13,865,627</u>	<u>\$ 1,575</u>	<u>\$ 26,402,620</u>
\$ 232,717	\$ 10,053	\$ -	\$ 620,467
-	-	-	841,793
-	-	-	93,777
<u>232,717</u>	<u>10,053</u>	<u>-</u>	<u>1,556,037</u>
9,998,572	13,855,574	-	24,514,581
-	-	-	330,427
-	-	1,575	1,575
<u>9,998,572</u>	<u>13,855,574</u>	<u>1,575</u>	<u>24,846,583</u>
<u>\$ 10,231,289</u>	<u>\$ 13,865,627</u>	<u>\$ 1,575</u>	<u>\$ 26,402,620</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 764,970	\$ 595,892	\$ -
Other State sources	6,789,169	1,211,967	-
Other local sources	140,163	625,956	1,170
<b>Total Revenues</b>	<b>7,694,302</b>	<b>2,433,815</b>	<b>1,170</b>
<b>EXPENDITURES</b>			
Current			
Instruction	3,327,437	2,221,678	-
Instruction-related activities:			
Supervision of instruction	503,178	27,739	-
Instructional library and technology	38,083	-	-
School site administration	2,316,534	180,097	-
All other pupil services	76,027	14,385	-
Administration:			
All other administration	330,896	-	-
Maintenance and operations	362,840	90,130	36,447
Facility acquisition and construction	-	-	-
<b>Total Expenditures</b>	<b>6,954,995</b>	<b>2,534,029</b>	<b>36,447</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>739,307</b>	<b>(100,214)</b>	<b>(35,277)</b>
<b>Other Financing Sources</b>			
Transfers in	-	100,214	-
<b>Net Financing Sources</b>	<b>-</b>	<b>100,214</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>739,307</b>	<b>-</b>	<b>(35,277)</b>
<b>Fund Balance - Beginning</b>	<b>209,783</b>	<b>-</b>	<b>77,049</b>
<b>Fund Balance - Ending</b>	<b>\$ 949,090</b>	<b>\$ -</b>	<b>\$ 41,772</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 1,360,862
-	3,569,741	-	11,570,877
1,967,702	104,931	11	2,839,933
<u>1,967,702</u>	<u>3,674,672</u>	<u>11</u>	<u>15,771,672</u>
-	-	-	5,549,115
-	-	-	530,917
-	-	-	38,083
-	-	-	2,496,631
-	-	-	90,412
-	-	-	330,896
50,750	-	-	540,167
467,374	2,025,293	-	2,492,667
<u>518,124</u>	<u>2,025,293</u>	<u>-</u>	<u>12,068,888</u>
<u>1,449,578</u>	<u>1,649,379</u>	<u>11</u>	<u>3,702,784</u>
-	-	-	100,214
-	-	-	100,214
1,449,578	1,649,379	11	3,802,998
8,548,994	12,206,195	1,564	21,043,585
<u>\$ 9,998,572</u>	<u>\$ 13,855,574</u>	<u>\$ 1,575</u>	<u>\$ 24,846,583</u>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards (SEFA)

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

The following schedule presents reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Change in Fund Balances, and the expenditures reported on the Schedule of Expenditures of Federal Awards. CFDA represents Catalog of Federal Domestic Assistance.

Description	CFDA Number	Amount
Total Federal resources reported on Governmental Funds Statement		\$ 13,477,529
Total Federal resources reported on Business-type Activities		4,941,709
Federal subsidy for advance placement testing fees not reported on the SEFA	not available	(208,432)
Commodities not recorded on the financial statements	10.555	248,129
Total Schedule of Expenditures of Federal Awards		<u>\$ 18,458,935</u>

#### Local Education Agency Organization Structure

This schedule provides information of number of schools the District operated, the District's members of the Governing Board, and members of the administration.

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

Average daily attendance (ADA) is a measurement of the number of pupils attending classes at 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.

#### Schedule of Instructional Time

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

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

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016**

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### **Reconciliation of Unaudited Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Annual Financial and Budget Report to the Audited Financial Statements.

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

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

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District or Santa Clara County Office of Education, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
East Side Union High School District  
San Jose, 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, the business-type activities, each major fund, and the aggregate remaining fund information of East Side Union High School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise East Side Union High School District's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

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

As discussed in Note 1 to the financial statements, in 2016, the District adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*; GASB 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 Statement 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to these matters.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of This Report**

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

Palo Alto, California  
\_\_\_\_\_, 2016



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

Governing Board  
East Side Union High School District  
San Jose, California

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

We have audited East Side Union High 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 East Side Union High School District's (the District) major Federal programs for the year ended June 30, 2016. East Side Union High School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of East Side Union High 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 East Side Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, East Side Union High 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 East Side Union High 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 East Side Union High 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 East Side Union High 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.

Palo Alto, California

\_\_\_\_\_, 2016



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
East Side Union High School District  
San Jose, California

### **Report on State Compliance**

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the East Side Union High School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about East Side Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of East Side Union High School District's compliance with those requirements.

### ***Unmodified Opinion on Each of the Programs***

In our opinion, East Side Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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

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

The District did not offer a Kindergarten Continuance program during the current year; therefore, we did not perform any related procedures.

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

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

The District does not have a public school that has a K-3 Grade Span; therefore, we did not perform any related procedures.

The District does not offer an After School Education and Safety program; therefore, we did not perform any related procedures.

The District does not offer a Course Based Independent Study program; therefore, we did not perform any related procedures.

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

The District does not have any dependent Charter Schools; therefore, we did not perform any related procedures.

Palo Alto, California

\_\_\_\_\_, 2016

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<u>No</u>

Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A	Special Education Cluster
84.010	Title I, Part A, Basic Grants Low-Income and Neglected

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

**STATE AWARDS**

Type of auditor's report issued on compliance for all applicable programs:	<u>Unmodified</u>
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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2002 MEASURE G FUND  
ANNUAL FINANCIAL REPORT  
AND PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2002 MEASURE G FUND  
ANNUAL FINANCIAL REPORT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
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JUNE 30, 2016**

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***INDEPENDENT AUDITOR'S REPORT***

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	12
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***SCHEDULE OF FINDINGS***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the East Side Union High School District's (the District), 2002 Measure G Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the 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 an opinion 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 of 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the 2002 Measure G Fund of the East Side Union High School District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the financial activities of the 2002 Measure G Fund, as of June 30, 2016, and are not intended to present fairly the financial position and the results of operations of East Side Union High School District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2016, on our consideration of the Fund'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered with the results of our audit.

Palo Alto, California  
\_\_\_\_\_, 2016

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND**

**BALANCE SHEET**

**JUNE 30, 2016**

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**ASSETS**

Deposits and investments	\$ 18,982,582
Interest receivable	42,262
Total Assets	<u>\$ 19,024,844</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Vendor payable	\$ 2,713,959
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**FUND BALANCE**

Restricted for capital projects	16,310,885
Total Liabilities and Fund Balance	<u>\$ 19,024,844</u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>REVENUES</b>	
Investment income	<u>\$ 166,175</u>
<b>EXPENDITURES</b>	
Current Expenditures	
Classified salaries	265,649
Employees benefits	120,590
Supplies	29,669
Services and other operating expenses	300,574
Capital Outlay	<u>9,302,720</u>
Total Expenditures	<u>10,019,202</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	(9,853,027)
<b>FUND BALANCE - BEGINNING</b>	26,163,912
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 16,310,885</u></u>

DRAFT

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2002 Measure G Fund (the Fund) of the East Side Union High School District (the District) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

#### Financial Reporting Entity

The financial statements include the financial activity of the Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure G Election of 2002 (the Measure). These financial statements are not intended to present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$298,000,000. Schedule below summaries bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
07/09/02	Series A	\$ 30,000,000
04/03/03	Series B	30,000,000
07/28/04	Series C	50,000,000
06/02/05	Series D	70,000,000
06/16/05	Series E	29,999,530
07/11/06	Series F	50,000,000
08/15/07	Series G	19,997,739
12/04/08	Series H	18,000,000
	Total	<u>\$ 297,997,269</u>

#### Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED*

#### **Fund Balance - Governmental Funds**

As of June 30, 2016, fund balance of the Fund is classified as restricted for capital projects.

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

#### **Change in Accounting Principles**

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015. The implementation did not have material impact on the Fund's financial statement, because the Fund deposited all its funds in the county pool which is not required to be categorized.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 2 - INVESTMENTS**

**Policies and Practices**

The District, alongside with the Fund, is authorized under the California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; 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 agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

**Investment in County Treasury**

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

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 18,982,582</u>	<u>\$ 19,039,701</u>

**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 is to changes in market interest rates. The Fund manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is \$19,039,701 with an average maturity of 439 days.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - GENERAL LONG-TERM DEBT**

The 2002 Measure G general obligation bonds are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds		Deceased/ Redeemed	Bonds Outstanding June 30, 2016
				Outstanding July 1, 2015	Accreted/ Issued		
2002 E	2020	4.2%-5.1%	\$ 29,999,529	\$ 11,530,454	\$ 682,686	\$ 2,000,000	\$ 10,213,140
2002 G	2032	4.6%-6.9%	19,997,739	30,125,005	1,036,947	-	31,161,952
2002 H	2034	5.1%-6.0%	18,000,000	16,825,000	-	15,400,000	1,425,000
2003 Ref	2027	2.0%-5.3%	97,160,000	64,800,000	-	2,840,000	61,960,000
2010 Ref	2028	2.0%-5.0%	46,160,000	38,835,000	-	2,370,000	36,465,000
2012 Ref	2029	2.0%-5.0%	36,735,000	33,360,000	-	1,775,000	31,585,000
2013 Ref	2030	3.0%-5.0%	88,145,000	87,565,000	-	685,000	86,880,000
2014 Ref	2036	2.0%-5.0%	41,400,000	40,620,000	-	1,305,000	39,315,000
2016 Ref	2034	2.0%-5.0%	16,060,000	-	16,060,000	-	16,060,000
<b>Total</b>				<b>\$ 323,660,459</b>	<b>\$ 17,779,633</b>	<b>\$ 26,375,000</b>	<b>\$ 315,065,092</b>

2003 Refunding bonds were issued on August 1, 2003 to refund all remaining 1991 election outstanding bonds, 1999 election 2002 series outstanding bonds and 2002 election Series A bonds. 2010 Refunding bonds were issued on October 12, 2010 to refund all 1999 election outstanding bonds and 2002 election series B. 2012 Refunding bonds were issued on July 10, 2012 to refund all outstanding 2002 election Series C bonds. 2013 Refunding bonds were issued on July 25, 2013 to refund all outstanding 2002 election Series D bonds and partial Series E. 2014 Refunding bonds were issued on June 19, 2014 to refund partial 2002 election Series F. 2016 Refunding bonds were issued on May 11, 2016 to refund partial 2002 election Series H.

The debt service requirements of 2002 Measure G bond programs are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 11,222,453	\$ 13,335,250	\$ 24,557,703
2018	12,018,611	13,973,014	25,991,625
2019	12,548,912	13,938,010	26,486,922
2020	12,671,414	13,705,785	26,377,199
2021	15,338,962	11,208,866	26,547,828
2022 - 2026	122,934,237	43,556,122	166,490,359
2027 - 2031	91,319,312	25,931,477	117,250,789
2032 - 2036	20,364,332	9,426,981	29,791,313
<b>Sub Total</b>	<b>298,418,233</b>	<b>\$ 145,075,505</b>	<b>\$ 443,493,738</b>
Accreted Interest	16,646,859		
<b>Total</b>	<b>\$ 315,065,092</b>		

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - GENERAL LONG-TERM DEBT, CONTINUED**

**Debt Service Requirements**

The general obligation bonds mature through the 2036 fiscal year. Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund accounted for by the Santa Clara County Controller’s Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

**Construction Commitments**

As of June 30, 2016, the District had construction commitments which are partially funded by the 2002 Measure G Fund as follows:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Mount Pleasant - Swimming Pool Modernization	\$ 893,995	6/30/2017
Yerba Buena - Swimming Pool Modernization	882,596	6/30/2017
Foothill - Streetscape, Infrastructure, Wayfinding Modernization	345,584	6/30/2017
Santa Teresa - Swimming Pool Modernization	341,851	6/30/2017
Independence - Building B Commons Modernization	174,833	6/30/2017
Independence - Roofing	19,000	6/30/2017
WC Overfelt - Door Replacement	13,062	6/30/2017
Silver Creek - Door Replacement	11,555	6/30/2017
Andrew Hill - Door Replacement	10,550	6/30/2017
Piedmont Hills - Door Replacement	10,550	6/30/2017
Independence - Stadium Sound System Upgrade	7,255	6/30/2017
Independence - Performing Arts Center Building F	6,710	6/30/2017
Independence - Streetscape, Infrastructure, Wayfinding Modernization	5,809	6/30/2017
James Lick - Door Replacement	3,517	6/30/2017
Mount Pleasant - Door Replacement	1,005	6/30/2017
District Program Cost and Program Management Services Cost	200,806	12/30/2017
Independence - Mechanical and Electrical Upgrades	604,547	6/30/2018
Piedmont Hills - Mechanical and Electrical Upgrades	453,012	6/30/2018
Andrew Hill - Mechanical and Electrical Upgrades	142,261	6/30/2018
James Lick - Mechanical and Electrical Upgrades	108,700	6/30/2018
Foothill - Mechanical and Electrical Upgrades	74,446	6/30/2018
Silver Creek - Mechanical and Electrical Upgrades	53,040	6/30/2018
Oak Grove - Mechanical and Electrical Upgrades	30,774	6/30/2018
Santa Teresa - Mechanical and Electrical Upgrades	30,774	6/30/2018
WC Overfelt - Mechanical and Electrical Upgrades	23,211	6/30/2018
WC Overfelt - Building L Classroom Modernization	16,770	6/30/2018
	<u>\$ 4,466,213</u>	

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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*NOTE 4 - COMMITMENTS AND CONTINGENCIES, CONTINUED*

**Litigation**

The Fund 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 Fund as of June 30, 2016.

*NOTE 5 - SUBSEQUENT EVENT*

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through \_\_\_\_\_, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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***INDEPENDENT AUDITOR'S REPORT***



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

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, 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 East Side Union High School District's (the District) 2002 Measure G Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Palo Alto, California  
\_\_\_\_\_, 2016

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***SCHEDULE OF FINDINGS***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2002 MEASURE G FUND  
PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G FUND

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JUNE 30, 2016

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**INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE**

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

We were engaged to conduct a performance audit of the East Side Union High School District (the District), 2002 Measure G Fund (the Fund) for the year ended June 30, 2016.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report, which includes determining the Fund's compliance with the performance requirements as referred to in the 2002 Measure G and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements referred to in the 2002 Measure G and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended 2002 Measure G Funds only for the specific projects approved by the voters in accordance with 2002 Measure G, and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Palo Alto, California  
\_\_\_\_\_, 2016

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
JUNE 30, 2016**

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***AUTHORITY FOR ISSUANCE***

The 2002 Measure G Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held in March 2002. The authorized issuance amount of the bonds is \$298,000,000. Schedule below summaries bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
07/09/02	Series A	\$ 30,000,000
04/03/03	Series B	30,000,000
07/28/04	Series C	50,000,000
06/02/05	Series D	70,000,000
06/16/05	Series E	29,999,530
07/11/06	Series F	50,000,000
08/15/07	Series G	19,997,739
12/04/08	Series H	18,000,000
	Total	<u>\$ 297,997,269</u>

***PURPOSE OF ISSUANCE***

The net proceeds of the bonds issued under the authorization will be used for the purposes specified in the measure submitted at the 2002 election, which include upgrading classrooms and libraries, providing safety improvements, modernizing lighting, roofs, windows, and plumbing and technology upgrades and removing hazardous materials.

Per the Measure, the scope of bond proceeds is "To provide greater security and safety, relieve overcrowding, and improve technology at the following schools: Andrew Hill, Independence, James Lick, Mount Pleasant, Piedmont Hills, Oak Grove, Santa Teresa, Silver Creek, WC Overfelt, Yerba Buena, Foothill, Alternative Schools, and the Adult Education Centers, shall the East Side Union High School District issue \$298 million of bonds within legal interest rate limits to repair, build, and equip its facilities provided the spending such funds is reviewed by an independent citizen oversight committee."

***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act which amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (Assembly Bills 1908 and 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2002 MEASURE G FUND**

**JUNE 30, 2016**

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2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

### ***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of the 2002 Measure G.
2. Determine whether salary transactions charged to the Fund were in support of the 2002 Measure G and not for District general administration or operations.

### ***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2015 to June 30, 2016. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2016 were not reviewed or included within the scope of our audit or in this report.

### ***PROCEDURES PERFORMED***

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2016 for the 2002 Measure G Fund. Within the fiscal year audited, we obtained invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and the 2002 Measure G as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2015 and ending June 30, 2016, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$5,511,415. This represents 55 percent of the total expenditures of \$10,019,202.
3. We verified that funds were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND**

**JUNE 30, 2016**

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*CONCLUSION*

The results of our tests indicated that, in all significant respects, the East Side Union High School District has properly accounted for the expenditures held in the Fund, and that such expenditures were made for authorized bond projects. Further, it was noted that funds held in the Fund, and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2008 MEASURE E FUND  
ANNUAL FINANCIAL REPORT  
AND PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

**DRAFT**

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2008 MEASURE E FUND  
ANNUAL FINANCIAL REPORT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E FUND

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JUNE 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the East Side Union High School District's (the District), 2008 Measure E Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the 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 an opinion 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 of 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the 2008 Measure E Fund of the East Side Union High School District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the financial activities of the 2008 Measure E Fund, as of June 30, 2016, and are not intended to present fairly the financial position and the results of operations of East Side Union High School District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2016, on our consideration of the Fund'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered with the results of our audit.

Palo Alto, California  
\_\_\_\_\_, 2016

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
BALANCE SHEET  
JUNE 30, 2016**

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**ASSETS**

Deposits and investments	\$ 25,822,001
Interest receivable	58,596
Total Assets	<u>\$ 25,880,597</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Vendor payable	\$ 2,826,312
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**FUND BALANCE**

Restricted for capital projects	23,054,285
Total Liabilities and Fund Balance	<u>\$ 25,880,597</u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>REVENUES</b>	
Investment income	<u>\$ 244,551</u>
<b>EXPENDITURES</b>	
Current Expenditures	
Classified salaries	908,958
Employees benefits	409,808
Supplies	305,988
Services and other operating expenses	581,563
Capital Outlay	<u>13,422,097</u>
Total Expenditures	<u>15,628,414</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	(15,383,863)
<b>FUND BALANCE - BEGINNING</b>	<u>38,438,148</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 23,054,285</u></u>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2008 Measure E Fund (the Fund) of the East Side Union High School District (the District) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

#### Financial Reporting Entity

The financial statements include the financial activity of the Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure E Election of 2008 (the Measure). These financial statements are not intended to present the financial position and results of operations of the District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$349,000,000. Schedule below summaries bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
06/12/08	Series A	\$ 50,000,000
03/24/10	Series B	100,000,000
07/14/11	Series C	20,026,088
04/17/12	Series D	100,000,000
	Total	<u>\$ 270,026,088</u>

#### Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED*

#### **Fund Balance - Governmental Funds**

As of June 30, 2016, fund balance of the Fund is classified as restricted for capital projects.

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

#### **Change in Accounting Principles**

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015. The implementation did not have material impact on the Fund's financial statement, because the Fund deposited all its funds in the county pool which is not required to be categorized.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 2 - INVESTMENTS**

**Policies and Practices**

The District, alongside with the Fund, is authorized under the California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; 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 agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

**Investment in County Treasury**

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

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 25,822,001</u>	<u>\$ 25,899,700</u>

**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 is to changes in market interest rates. The Fund manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is \$25,899,700 with an average maturity of 439 days.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - GENERAL LONG-TERM DEBT**

The 2008 Measure E general obligation bonds, are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds		Deceased/ Redeemed	Bonds	
				Outstanding July 1, 2015	Issued		Outstanding June 30, 2016	
2008 A	2039	4.0%-5.0%	\$ 50,000,000	\$ 45,135,000	\$ -	\$ 42,875,000	\$ 2,260,000	
2008 B	2040	3.0%-5.0%	100,000,000	93,340,000	-	84,740,000	8,600,000	
2008 C	2026	4.0%	20,026,088	15,667,676	-	1,223,043	14,444,633	
2008 D	2043	2.0%-5.0%	100,000,000	100,000,000	-	330,000	99,670,000	
2015 Ref	2039	3.0%-5.0%	41,420,000	-	41,420,000	-	41,420,000	
2016 Ref	2040	3.0%-5.0%	83,665,000	-	83,665,000	-	83,665,000	
Total				<u>\$ 254,142,676</u>	<u>\$ 125,085,000</u>	<u>\$ 129,168,043</u>	<u>\$ 250,059,633</u>	

2015 Refunding bonds were issued on August 4, 2015 to refund partial the 2008 election series A bonds. 2016 Refunding bonds were issued on May 11, 2016 to refund partial the 2008 election series B bonds.

The debt service requirements of 2008 Measure E bond programs are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 6,763,665	\$ 9,457,278	\$ 16,220,943
2018	5,805,711	10,489,480	16,295,191
2019	6,209,240	10,250,778	16,460,018
2020	6,544,309	9,980,653	16,524,962
2021	4,480,982	9,733,560	14,214,542
2022 - 2026	39,655,726	43,779,758	83,435,484
2027 - 2031	45,630,000	33,220,555	78,850,555
2032 - 2036	59,205,000	21,545,648	80,750,648
2037 - 2041	61,490,000	8,629,146	70,119,146
2042 - 2043	14,275,000	649,688	14,924,688
Total	<u>\$ 250,059,633</u>	<u>\$ 157,736,544</u>	<u>\$ 407,796,177</u>

**Debt Service Requirements**

The general obligation bonds mature through the 2043 fiscal year. Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund accounted for by the Santa Clara County Controller's Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 4 - COMMITMENTS AND CONTINGENCIES

#### Construction Commitments

As of June 30, 2016, the District had construction commitments which are partially funded by the 2008 Measure E Fund as follows:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
District Wide Technology - Security Camera Upgrades	\$ 1,445,302	6/30/2017
Santa Teresa - Swimming Pool Modernization	1,100,000	6/30/2017
Piedmont Hills - Swimming Pool Modernization	950,814	6/30/2017
Piedmont Hills - Small Gym	699,088	6/30/2017
Independence - Building J Modernization	620,729	6/30/2017
Mount Pleasant - Swimming Pool Modernization	350,000	6/30/2017
Yerba Buena - Swimming Pool Modernization	338,689	6/30/2017
Independence - Portable Village	235,834	6/30/2017
Santa Teresa - Landscape and Hardscape Upgrade	94,591	6/30/2017
Santa Teresa - Field Concession Building	68,022	6/30/2017
Independence - Performing Arts Center Building F	40,263	6/30/2017
Andrew Hill - Baseball Foul Ball Net	2,220	6/30/2017
Evergreen - Upgrade 12 Existing Portables	616	6/30/2017
Independence - Building B Modernization	188	6/30/2017
District Program Cost and Program Management Services Cost	461,680	12/30/2017
Yerba Buena - New Student Union and Quad Modernization	8,507,800	6/30/2018
WC Overfelt - Building L Classroom Modernization	2,682,013	6/30/2018
Independence - Buildings GHKLB Modernization	1,193,248	6/30/2018
Mount Pleasant - New Student Center and Quads	1,189,902	6/30/2018
Yerba Buena - Alternate Education MiniCampus Improvement Phase 1	501,445	6/30/2018
Piedmont Hills - New Classrooms Building D1 and D2	374,978	6/30/2018
Evergreen - Mechanical and Electrical Upgrades	307,457	6/30/2018
Foothill - Hooper Hall Building Modernization	76,317	6/30/2018
Foothill - Quad Upgrade (Hardscape-Landscape)	28,149	6/30/2018
Oak Grove - New Student Center and Quad Renovation	5,000	6/30/2018
Evergreen - Fire Damper Upgrade	975	6/30/2018
	<u>\$ 21,275,320</u>	

#### Litigation

The Fund 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 Fund as of June 30, 2016.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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*NOTE 5 - SUBSEQUENT EVENT*

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through \_\_\_\_\_, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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***INDEPENDENT AUDITOR'S REPORT***



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

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, 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 East Side Union High School District's (the District) 2008 Measure E Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Palo Alto, California  
\_\_\_\_\_, 2016

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***SCHEDULE OF FINDINGS***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2008 MEASURE E FUND  
PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
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## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

We were engaged to conduct a performance audit of the East Side Union High School District's (the District), 2008 Measure E Fund (the Fund) for the year ended June 30, 2016.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report, which includes determining the Fund's compliance with the performance requirements as referred to in the 2008 Measure E and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements referred to in the 2008 Measure E and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended 2008 Measure E Funds only for the specific projects approved by the voters in accordance with 2008 Measure E, and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Palo Alto, California  
\_\_\_\_\_, 2016

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
JUNE 30, 2016**

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***AUTHORITY FOR ISSUANCE***

The 2008 Measure E Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The 2008 general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held on February 5, 2008. The total amount authorized was \$349,000,000. The proceeds are to be used for the financing of site improvements and modernization of school facilities. Schedule below summaries bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
06/12/08	Series A	\$ 50,000,000
03/24/10	Series B	100,000,000
07/14/11	Series C	20,026,088
04/17/12	Series D	100,000,000
	Total	<u>\$ 270,026,088</u>

***PURPOSE OF ISSUANCE***

The net proceeds of the bonds and any other series of general obligation bonds issued under the authorization will be used for the purposes specified in the Measure E submitted at the 2008 election, which include upgrading classrooms and libraries, providing safety improvements, modernizing lighting, roofs, windows, and plumbing and technology upgrades and removing hazardous materials.

Per the Measure, the scope of “Bond proceeds will be expended to modernize, replace, renovate, construct, equip, furnish, rebuild and otherwise improve District facilities. The specific school facilities projects include all related and incidental costs, including costs of design, engineering, architect and other professional services, site preparation, utilities, landscaping and other incidental costs, and construction management. Bond proceeds may also be expended to acquire real property for future educational facilities and to acquire and install furniture, fixtures and equipment at any classrooms and other facilities of the District. The District may alter the scope and nature of any of the specific projects, as required by conditions that arise during the course of design and construction, including unforeseen conditions such as dry rot, mold and faulty engineering.”

***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act which amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E FUND**

**JUNE 30, 2016**

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2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

### ***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of the 2008 Measure E.
2. Determine whether salary transactions charged to the Fund were in support of the 2008 Measure E and not for District general administration or operations.

### ***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2015 to June 30, 2016. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2016 were not reviewed or included within the scope of our audit or in this report.

### ***PROCEDURES PERFORMED***

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2016 for the 2008 Measure E Fund. Within the fiscal year audited, we obtained invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and the 2008 Measure E as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2015 and ending June 30, 2016, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$7,708,862. This represents 49 percent of the total expenditures of \$15,628,414.
3. We verified that funds were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held were used for salaries of administrators only to the extent they perform administrative oversight

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND**

**JUNE 30, 2016**

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work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

***CONCLUSION***

The results of our tests indicated that, in all significant respects, the East Side Union High School District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized bond projects. Further, it was noted that funds held in the Fund, and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2012 MEASURE I FUND  
ANNUAL FINANCIAL REPORT  
AND PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2012 MEASURE I FUND  
ANNUAL FINANCIAL REPORT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

DRAFT

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
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JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the East Side Union High School District's (the District), 2012 Measure I Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the 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 an opinion 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 of 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the 2012 Measure I Fund of the East Side Union High School District at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the financial activities of the 2012 Measure I Fund, as of June 30, 2016, and are not intended to present fairly the financial position and the results of operations of East Side Union High School District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2016, on our consideration of the Fund'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered with the results of our audit.

Palo Alto, California  
\_\_\_\_\_, 2016

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
BALANCE SHEET  
JUNE 30, 2016**

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**ASSETS**

Deposits and investments	\$ 97,074,437
Interest receivable	202,499
Prepaid expenses	11,722
Total Assets	<u>\$ 97,288,658</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Vendor payable	\$ 2,462,995
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**FUND BALANCE**

Restricted for capital projects	94,825,663
Total Liabilities and Fund Balance	<u>\$ 97,288,658</u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

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**REVENUES**

Investment income	\$ 728,787
All other local income	<u>2,500</u>
Total Revenues	<u>731,287</u>

**EXPENDITURES**

Current Expenditures	
Classified salaries	363,875
Employees benefits	164,799
Supplies	851,065
Services and other operating expenses	834,677
Capital Outlay	<u>12,915,165</u>
Total Expenditures	<u>15,129,581</u>

<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	(14,398,294)
<b>FUND BALANCE - BEGINNING</b>	<u>109,223,957</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 94,825,663</u>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2012 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2012 Measure I Fund (the Fund) of the East Side Union High School District (the District) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

#### Financial Reporting Entity

The financial statements include the financial activity of the Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure I Election of 2012 (the Measure). These financial statements are not intended to present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$120,000,000. Schedule below summaries bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
11/13/13	Series A	\$ 20,000,000
06/23/15	Series B	100,000,000
	Total	<u>\$ 120,000,000</u>

#### Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2012 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED*

#### **Fund Balance - Governmental Funds**

As of June 30, 2016, fund balance of the Fund is classified as restricted for capital projects.

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

#### **Change in Accounting Principles**

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015. The implementation did not have material impact on the Fund's financial statement, because the Fund deposited all its funds in the county pool which is not required to be categorized.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 2 - INVESTMENTS**

**Policies and Practices**

The District, alongside with the Fund, is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; 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 agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

**Investment in County Treasury**

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

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 97,074,437</u>	<u>\$ 97,366,537</u>

**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 is to changes in market interest rates. The Fund manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is \$97,366,537 with an average maturity of 439 days.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - GENERAL LONG-TERM DEBT**

The 2012 Measure I general obligation bonds are outstanding as follows:

Issues	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Redeemed	Bonds Outstanding June 30, 2016
2012 A	2039	2.0%-5.3%	\$ 20,000,000	\$ 18,860,000	\$ -	\$ 860,000	\$ 18,000,000
2012 B	2036	4.0%-5.0%	100,000,000	100,000,000	-	-	100,000,000
				<u>\$ 118,860,000</u>	<u>\$ -</u>	<u>\$ 860,000</u>	<u>\$ 118,000,000</u>

The debt service requirements of 2012 Measure I bond program are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 2,465,000	\$ 5,522,164	\$ 7,987,164
2018	3,085,000	5,412,044	8,497,044
2019	2,620,000	5,302,944	7,922,944
2020	2,850,000	5,186,869	8,036,869
2021	3,120,000	5,040,194	8,160,194
2022-2026	20,695,000	22,413,095	43,108,095
2027-2031	32,080,000	15,952,142	48,032,142
2032-2036	47,465,000	6,451,664	53,916,664
2037-2039	3,620,000	291,638	3,911,638
Total	<u>\$ 118,000,000</u>	<u>\$ 71,572,754</u>	<u>\$ 189,572,754</u>

**Debt Service Requirements**

The general obligation bonds mature through the 2039 fiscal year. Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund accounted for by the Santa Clara County Controller’s Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2012 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 4 - COMMITMENTS AND CONTINGENCIES

#### Construction Commitments

As of June 30, 2016, the District had construction commitments which are partially funded by the 2012 Measure I Fund as follows:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
District Wide Fire Alarm Modernization	\$ 15,769,691	6/30/2017
WC Overfelt - Pool Modernization (Phase 2)	1,752,528	6/30/2017
Silver Creek - Pool Modernization (Phase 2)	1,516,635	6/30/2017
James Lick - Pool Modernization (Phase 2)	1,485,620	6/30/2017
District Wide Security Camera Upgrades	1,122,455	6/30/2017
Piedmont Hills - Swimming Pool Modernization	962,854	6/30/2017
Phoenix - Classroom Building and Courtyard	791,826	6/30/2017
Piedmont Hills - New Classroom Buildings D1 and D2	632,587	6/30/2017
Silver Creek - Field Concession Building	439,661	6/30/2017
Santa Teresa - Field Concession Building	383,238	6/30/2017
District Wide Pool Modernization (Phase 1)	379,268	6/30/2017
Silver Creek - Upgrade Quads	242,480	6/30/2017
Silver Creek - Building N Modernization and New Quad Marquee	210,322	6/30/2017
Independence - Streetscape, Infrastructure, Wayfinding Modernization	194,252	6/30/2017
District Wide Wireless Network (Phase 2)	155,546	6/30/2017
Santa Teresa - Swimming Pool Modernization	137,398	6/30/2017
James Lick - Classroom Modernization	110,085	6/30/2017
Santa Teresa - Building 1300 Modernization	109,287	6/30/2017
Independence - Building B Modernization	93,840	6/30/2017
Santa Teresa - Student Parking Lot Entry	88,410	6/30/2017
Evergreen - Science Classroom Refurbishment	82,133	6/30/2017
Mount Pleasant - Pool Modernization (Phase 1)	48,327	6/30/2017
WC Overfelt - Baseball Complex East Renovation	44,779	6/30/2017
Silver Creek - Site Infrastructure Improvements	42,145	6/30/2017
Santa Teresa - Building 600 Modernization	35,821	6/30/2017
District Wide IT Backend Computer System Upgrade	9,159	6/30/2017
District Wide Energy Efficiency Project	7,910	6/30/2017
Santa Teresa - Infrastructure Modernization	5,407	6/30/2017
District Wide Fire Alarm Modernization	2,244	6/30/2017
Andrew Hill - Irrigation System Repairs	575	6/30/2017
WC Overfelt - Infrastructure	300	6/30/2017

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4 - COMMITMENTS AND CONTINGENCIES, CONTINUED**

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Andrew Hill - Sanitary Sewer System Repairs	285	6/30/2017
Andrew Hill - Softball Complex and West Storm Drain Improvement	113	6/30/2017
Evergreen - Upgrade 12 Existing Portables	25	6/30/2017
District Program Cost and Program Management Services Cost	1,972,731	12/30/2017
Yerba Buena - New Student Union and Quad Modernization	8,205,925	6/30/2018
Oak Grove - New Student Center and Quad Reno	466,653	6/30/2018
Mount Pleasant - New Student Center and Quads	368,690	6/30/2018
District Wide Mechanical and Electrical Upgrades	298,219	6/30/2018
Oak Grove - Renovate Building H1/H2 Restrooms	154,383	6/30/2018
Andrew Hill - Courtyards Improvements	154,373	6/30/2018
Oak Grove - Replacement Security Fencing	66,132	6/30/2018
Foothill - Building D Computer Lab Modernization	42,084	6/30/2018
Piedmont Hills - Site Infrastructure Improvements	40,603	6/30/2018
Oak Grove - Site Infrastructure Improvements	29,586	6/30/2018
Independence - Theater Modernization Building F	11,472	6/30/2018
Mount Pleasant - Site Infrastructure Improvements	10,859	6/30/2018
Foothill - Site Infrastructure Improvements	10,167	6/30/2018
Foothill - Hooper Hall Building Modernization	7,460	6/30/2018
James Lick - Site Infrastructure Improvements	5,712	6/30/2018
Evergreen - Fire Damper Upgrade	5,190	6/30/2018
Foothill - Quad Upgrade (Hardscape-Landscape)	2,460	6/30/2018
	<u>\$ 38,709,905</u>	

**Litigation**

The Fund 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 Fund as of June 30, 2016.

**NOTE 5 - SUBSEQUENT EVENT**

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through \_\_\_\_\_, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

***INDEPENDENT AUDITOR'S REPORT***



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

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, 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 East Side Union High School District's (the District) 2012 Measure I Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Palo Alto, California  
\_\_\_\_\_, 2016

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***SCHEDULE OF FINDINGS***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2012 MEASURE I FUND  
PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
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JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

We were engaged to conduct a performance audit of the East Side Union High School District (the District), 2012 Measure I Fund (the Fund) for the year ended June 30, 2016.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report, which includes determining the Fund's compliance with the performance requirements as referred to in the 2012 Measure I and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements referred to in the 2012 Measure I and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended 2012 Measure I Funds only for the specific projects approved by the voters in accordance with 2012 Measure I, and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Palo Alto, California  
\_\_\_\_\_, 2016

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND**

**JUNE 30, 2016**

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***AUTHORITY FOR ISSUANCE***

The 2012 Measure I Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held in November 6, 2012. The authorized issuance amount of the bonds is \$120,000,000. Schedule below summaries bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
11/13/13	Series A	\$ 20,000,000
06/23/15	Series B	100,000,000
	Total	<u>\$ 120,000,000</u>

***PURPOSE OF ISSUANCE***

The net proceeds of the bonds issued under the authorization will be used for the purposes specified in the measure submitted at the 2012 election, which include upgrading classrooms and science labs, providing safety improvements, repairs, and to construct classrooms/facilities.

Per the Measure, the scope of bond proceeds is “To upgrade computer/science labs; improve security/safety; repair, equip, and construct classrooms/facilities at Andrew Hill, Calero, Evergreen Valley, Foothill, Independence, James Lick, Mt. Pleasant, Oak Grove, Piedmont Hills, Santa Teresa, Silver Creek, Yerba Buena, W.C. Overfelt, and District adult, alternative, and charter schools; and acquire property for new schools.”

***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act which amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens’ oversight committee.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2012 MEASURE I FUND**

**JUNE 30, 2016**

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4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

### ***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of the 2012 Measure I.
2. Determine whether salary transactions charged to the Fund were in support of the 2012 Measure I and not for District general administration or operations.

### ***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2015 to June 30, 2016. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2016 were not reviewed or included within the scope of our audit or in this report.

### ***PROCEDURES PERFORMED***

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2016 for the 2012 Measure I Fund. Within the fiscal year audited, we obtained invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and 2012 Measure I as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2015 and ending June 30, 2016, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$7,618,305. This represents 50 percent of the total expenditures of \$15,129,581.
3. We verified that funds were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND**

**JUNE 30, 2016**

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*CONCLUSION*

The results of our tests indicated that, in all significant respects, the East Side Union High School District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized bond projects. Further, it was noted that funds held in the Fund, and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2012 MEASURE I FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2014 MEASURE I FUND  
ANNUAL FINANCIAL REPORT  
AND PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

**DRAFT**

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2014 MEASURE I FUND  
ANNUAL FINANCIAL REPORT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
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JUNE 30, 2016**

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***INDEPENDENT AUDITOR'S REPORT***

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***SCHEDULE OF FINDINGS***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the East Side Union High School District's (the District), 2014 Measure I Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the 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 an opinion 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 of 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the 2014 Measure I Fund of the East Side Union High School District at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the financial activities of the 2014 Measure I Fund, as of June 30, 2016, and are not intended to present fairly the financial position and the results of operations of East Side Union High School District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2016, on our consideration of the Fund'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered with the results of our audit.

Palo Alto, California  
\_\_\_\_\_, 2016

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
BALANCE SHEET  
JUNE 30, 2016**

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**ASSETS**

Deposits and investments	\$ 5,989,208
Interest receivable	15,748
Prepaid expenses	<u>319,658</u>
Total Assets	<u><u>\$ 6,324,614</u></u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Vendor payable	\$ 2,997
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**FUND BALANCE**

Restricted for capital projects	<u>6,321,617</u>
Total Liabilities and Fund Balance	<u><u>\$ 6,324,614</u></u>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

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**REVENUES**

Investment income \$ 76,120

**EXPENDITURES**

Current Expenditures

Classified salaries	90,156
Employees benefits	22,739
Supplies	5,885,537
Services and other operating expenses	1,440,425
Capital Outlay	<u>2,382,009</u>
Total Expenditures	<u>9,820,866</u>

**EXCESS OF EXPENDITURES OVER REVENUES** (9,744,746)

**FUND BALANCE - BEGINNING** 16,066,363

**FUND BALANCE - ENDING** \$ 6,321,617

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

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2014 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016**

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### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of the 2014 Measure I Fund (the Fund) of the East Side Union High School District (the District) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

#### **Financial Reporting Entity**

The financial statements include the financial activity of the Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure I Election of 2014 (the Measure). These financial statements are not intended to present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$113,200,000. The first series of bonds in the amount of \$16,200,000 were sold on July 8, 2015.

#### **Fund Accounting**

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

#### **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

#### **Fund Balance - Governmental Funds**

As of June 30, 2016, fund balance of the Fund is classified as restricted for technology projects.

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2014 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED*

#### **Change in Accounting Principles**

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015. The implementation did not have material impact on the Fund's financial statement, because the Fund deposited all its funds in the county pool which is not required to be categorized.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 2 - INVESTMENTS**

**Policies and Practices**

The District, alongside with the Fund, is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; 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 agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

**Investment in County Treasury**

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

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 5,989,208</u>	<u>\$ 6,007,230</u>

**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 is to changes in market interest rates. The Fund manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is \$6,007,230 with an average maturity of 439 days.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - GENERAL LONG-TERM DEBT**

The 2014 Measure I general obligation bonds are outstanding as follows:

Issues	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Redeemed	Bonds Outstanding June 30, 2016
2014 A	2019	5.00%	\$ 16,200,000	\$ 16,200,000	\$ -	\$ -	\$ 16,200,000

The debt service requirements of 2014 Measure I bond program are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 5,100,000	\$ 682,500	\$ 5,782,500
2018	5,410,000	419,750	5,829,750
2019	5,690,000	142,250	5,832,250
Total	\$ 16,200,000	\$ 1,244,500	\$ 17,444,500

**Debt Service Requirements**

The general obligation bonds mature through the 2019 fiscal year. Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund accounted for by the Santa Clara County Controller’s Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

**Litigation**

The Fund 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 Fund as of June 30, 2016.

**NOTE 5 - SUBSEQUENT EVENT**

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through \_\_\_\_\_, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

***INDEPENDENT AUDITOR'S REPORT***



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

Governing Board and  
Citizens' Bond Oversight Committee  
East Side Union High School District  
San Jose, 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 East Side Union High School District's (the District) 2014 Measure I Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Palo Alto, California  
\_\_\_\_\_, 2016

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***SCHEDULE OF FINDINGS***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

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None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2014 MEASURE I FUND  
PERFORMANCE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
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JUNE 30, 2016**

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**INDEPENDENT AUDITOR’S REPORT ON PERFORMANCE**

Governing Board and  
Citizens’ Bond Oversight Committee  
East Side Union High School District  
San Jose, California

We were engaged to conduct a performance audit of the East Side Union High School District (the District), 2014 Measure I Fund (the Fund) for the year ended June 30, 2016.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report, which includes determining the Fund's compliance with the performance requirements as referred to in the 2014 Measure I and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements referred to in the 2014 Measure I and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended 2014 Measure I Funds only for the specific projects approved by the voters in accordance with 2014 Measure I, and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution.

Palo Alto, California  
\_\_\_\_\_, 2016

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2014 MEASURE I FUND**

**JUNE 30, 2016**

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### ***AUTHORITY FOR ISSUANCE***

The 2014 Measure I Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held in November 4, 2014. The authorized issuance amount of the bonds is \$113,200,000. The first series of bonds in the amount of \$16,200,000 were sold on June 25, 2015.

### ***PURPOSE OF ISSUANCE***

The net proceeds of the bonds issued under the authorization will be used for the purposes specified in the measure submitted at the 2014 election, which include increasing student computer access, upgrade educational software, keep pace with technological innovations and implement statewide testing requirements at Andrew Hill, Calero, Evergreen Valley, Foothill, Independence, James Lick, Mount Pleasant, Oak Grove, Piedmont Hills, Santa Teresa, Silver Creek, Yerba Buena, WC Overfelt, Adult Education Centers, Alternative Schools, and Charter Schools.

2014 Measure I is a technology bond designed to help the District's students keep pace with today's rapidly changing educational technology by providing a replenished source of funding for new technology over the next eighteen years. The Fund will provide an ongoing source of locally controlled, affordable funds for classroom computers, internet infrastructure and other technological innovations at every school in the District.

### ***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act which amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2014 MEASURE I FUND**

**JUNE 30, 2016**

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5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

### ***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of the 2014 Measure I.
2. Determine whether salary transactions charged to the Fund were in support of the 2014 Measure I and not for District general administration or operations.

### ***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2015 to June 30, 2016. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2016 were not reviewed or included within the scope of our audit or in this report.

### ***PROCEDURES PERFORMED***

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2016 for the 2014 Measure I Fund. Within the fiscal year audited, we obtained invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and 2014 Measure I as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2015 and ending June 30, 2016, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$8,895,909. This represents 91 percent of the total expenditures of \$9,820,866. During our testing, we noted a misclassification of expenditures that were improperly booked as current year expenditures. The misstatement has been corrected and the expenditures were properly posted as prepaid expenses of \$319,658 under the proper period.
3. We verified that funds were generally expended for the devices, technology systems, softwares, and capital technology projects. In addition, we verified that funds held were used for salaries of administrators only to the extent they perform administrative oversight work on technology projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

### ***CONCLUSION***

The results of our tests indicated that, in all significant respects, the East Side Union High School District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized bond projects. Further, it was noted that funds held in the Fund, and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2014 MEASURE I FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016**

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None reported.

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# Minority and/or Women Owned Report for ESUHSD

Marcus Battle, Associate Superintendent of business Services

Andre Bell, Director of Purchasing and Capital Accounting

Board Audit Committee

November 29, 2016

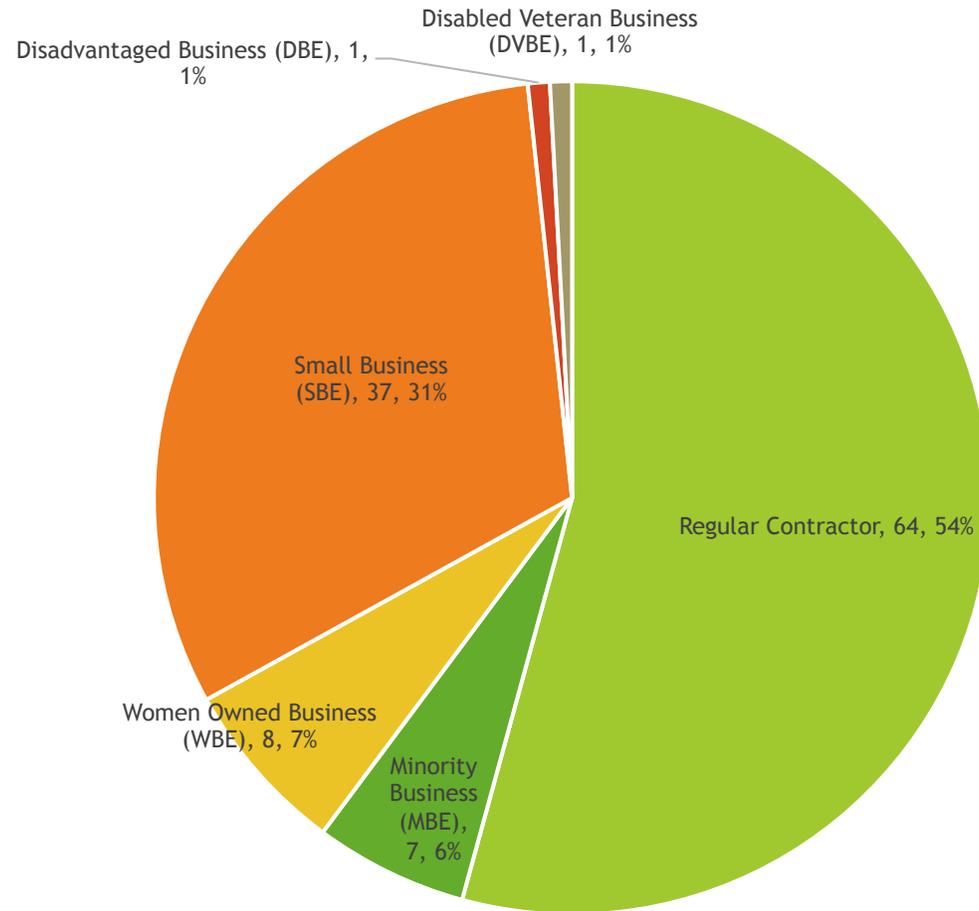
# Overview

- ▶ Pre-Qualification Process
- ▶ Qualified Minority and/or Women Owned  
Qualified with District
- ▶ Proposed out reach

# Pre-Qualification Process

- ▶ Board Policy 3311 states that all Contractor working on Capital Projects must be pre-qualified
- ▶ All contractor including Minority and/or Women Owned must complete the pre-qualification application.
- ▶ The District uses Quality Bidders for pre-qualification of all contracts
- ▶ Quality Bidders is web base and the contractor completes the application online
- ▶ Once the application is complete it is reviewed by Capital Purchasing
- ▶ If approved the contractor is eligible to bid on any District Project that they are qualified for
- ▶ Currently the District has 118 pre-qualified contractors

# Pre-Qualified Contractor, by type



- Regular Contractor
- Minority Business (MBE)
- Women Owned Business (WBE)
- Small Business (SBE)
- Disadvantaged Business (DBE)
- Disabled Veteran Business (DVBE)

# Out Reach

- ▶ The District could add the following to Board Policy 3311
  - ▶ A bid may be awarded to other than the “lowest responsible bidder,” when conditions specified in law exist. For example a district is permitted to give preference to minorities, women, veterans, and small businesses in accordance with Public Contract Code 2000-2002
- ▶ Work with members of the PLA to increase outreach in the community
- ▶ Reach out to firms like Minority Business Consortium and the Silicon Valley Small Business Administration



# ▶ QUESTIONS

**East Side Union High School District  
San Jose, California  
Audit Committee Charter  
Adopted 11/19/2009  
Revised 12/10/2015**

**Item 13**

**I. Audit Committee Authority**

The East Side Union High School District (ESUHSD) has established an Audit Committee to assist the Board of Trustees (Board) in the oversight of both the internal and external audit functions. The ability to create an Audit Committee was established by ESUHSD BP 3460.

**II. Mission**

The primary responsibility for financial and other reporting, internal control, and compliance with laws, regulations, and ethics within the ESUHSD rests with the Superintendent and his / her management team. The Board has oversight responsibilities in these areas and the Audit Committee is to assist the Board in fulfilling these responsibilities.

The Board Members who are members of the Audit Committee shall, on behalf of the Audit Committee, have unrestricted access to all information, including documents and personnel, and have adequate resources in order to fulfill its oversight responsibilities. All confidential information shall be maintained as confidential in accordance with Board policy and law, and shall not be provided or distributed to public members of the Committee.

In adopting this Charter the Board directs that District Administration shall work cooperatively with the Committee to promptly and fully respond to all requests for information and documentation.

The Board has established an Audit Committee to serve in an advisory capacity to the Board and shall:

- 1) Assist the Board in providing oversight of the external/internal audit functions by:
  - a. Reviewing the plan for the audit process with the independent auditor to determine the adequacy of the nature, scope, and timetable of the audit,
  - b. Reviewing the results of the audit and participate with the independent auditor and the Board in preparing final recommendations and responses,
  - c. Participating with the independent auditor in presenting the audit report to the Board,
  - d. Reviewing Board policies and administrative regulations to recommend any revisions needed to ensure effective financial reporting,
  - e. Periodically reporting to the Board regarding the status of previous audit recommendations for improving the accounting and internal control functions, and
  - f. Providing input on the effectiveness of the external independent auditor.
- 2) Assist the Board in providing oversight of the external and internal audit functions

- 3) Assist the Board in complying with its fiduciary oversight obligations;
- 4) Provide a communication link between the external and internal auditor and the Board
- 5) Provide greater transparency over public funds while improving public trust

### **III. Membership**

The Audit Committee consists of five voting members appointed by the Board as follows:

- 1) Two Board members, who shall serve as Chair and Vice Chair of the Committee, as determined by the Board. The Board President may not concurrently serve on the Audit Committee.
- 2) Three public members.

The Board may appoint an alternate public member. The alternate's responsibility is to temporarily substitute, with full voting powers, for any Audit Committee member who is absent from a meeting.

All voting members of the committee must reside within the boundaries of the East Side Union High School District.

The Board may appoint non-voting members with specific expertise to the committee. There is no residency requirement for non-voting members.

Appointment of Board members to the Audit Committee will be made at the Board's annual organizational meeting in December or as vacancies occur.

Board member terms shall be for one year beginning on the date of appointment at the Board's annual organizational meeting in December and ending the following year at the Board's next annual organizational meeting.

Public members will be appointed at the first regular Board meeting in January. Notification of the appointment process shall be posted at least 30 days prior to the appointment date. Public member terms will be for two years. The alternate public member term will be for one year. In order to coincide with the annual presentation of the external audit report to the Board, public member terms shall begin on February 1 and end two years later on January 31 or when the Board appoints a new member, whichever is later.

Public member's terms will be staggered so that all terms do not start and end at the same time. Immediately after the initial appointment of the three public members, the Board shall determine by lot which two of the public members shall serve an initial term of two years with the third public member serving an initial term of one year. The maximum number of consecutive years a member may serve is nine. A termed out member is eligible for appointment again after not serving for at least one year.

The members of the Audit Committee must collectively possess knowledge and experience in accounting, auditing, financial reporting, and school district finances needed to understand and evaluate the district's financial statements, the external audit of those statements, and the district's internal audit activities. Accordingly, the Audit Committee members should:

- 1) Be independent of the day-to-day management of the ESUHSD,
- 2) Possess the required skills and experience necessary to understand technical and complex financial reporting issues,
- 3) Have the ability to communicate with and offer advice and assistance to the Board, the external auditors, and the internal auditor,
- 4) Be knowledgeable about internal controls, financial statement audits, and managerial/operational audits
- 5) Be available to take training in educational finance

The following individuals cannot serve on the Audit Committee:

- a) Any person who, within the two years prior to appointment, has been an employee of the ESUHSD or sold goods or services to the ESUHSD,
- b) Anyone who, within the past two years, owns or has a direct and material interest in an entity, or who holds a leadership position in any entity, which provides substantial goods or services to the ESUHSD pursuant to purchase order or contract (either individually or under a fictitious business name),
- c) A close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under a) through b) above. The term “close or immediate family member” includes parent, sibling, nondependent child, spouse or domestic partner, or dependent (whether or not related),

Exceptions are as follows:

- d) An individual who would otherwise be excluded may serve if, after full disclosure, the potential conflict of interest is not material.
- e) Any member who develops a conflict of interest while on the Audit Committee must disclose such conflict. The other Audit Committee members at the next meeting shall, by majority vote, make a recommendation to the Board. The Board shall decide whether or not to remove and replace the affected member. Should a vacancy occur, the Board will notify the public of the opening, accept applications and appoint an individual to serve the balance of the vacated term.

If a vacancy among the voting public members occurs, the Board may appoint the alternate public member to fill the term of the vacated member.

The Audit Committee Chair and Vice Chair shall recommend to the Board as to when (as quickly as possible or in conjunction with the annual appointment of public member(s)) a new alternate public member shall be appointed.

#### **IV. Duties and Responsibilities**

##### Internal Control

The Audit Committee monitors the fiscal health of the ESUHSD and the relationship between its spending and its adopted budget. To carry out this duty, the Audit Committee may:

- 1) Review the effectiveness of the ESUHSD’s accounting organizational structure, and operations,
- 2) Review the ESUHSD’s internal controls, the adequacy of such controls, and recommends changes to management and the Board,

- 3) Review with the Superintendent and other management personnel the adequacy of systems and procedures for protecting information,
- 4) Inquire of the Superintendent and other management personnel about significant financial risks or exposures facing the ESUHSD, assesses the steps the ESUHSD has taken, or proposes to take, to minimize such risks to the ESUHSD, and periodically review compliance with such steps,
- 5) Review with the Superintendent and other management personnel;
  - a. Significant findings with respect to any management financial review including that of the Audit Committee, during the year and responses thereto,
  - b. Any difficulties review teams or personnel encountered in the course of their review, including any restrictions on the scope of their work or access to required information,
  - c. Any changes required in the scope of the review.
- 6) Review with the independent auditors, the Superintendent, and financial management personnel:
  - a. The adequacy of the ESUHSD's internal controls including computerized information system controls and security,
  - b. Any related significant findings and recommendations of the independent auditors together with management's responses thereto, and
  - c. The clarity and transparency of financial information and disclosures.

The Audit Committee recommends procedures for the confidential, anonymous submission of concerns about questionable accounting or auditing matters or suspected fraud. At the request of the Board, it reviews any submissions that are received, the current status of the review, and the resolutions, if any.

Assist the Board in providing oversight of the external audit functions

### General

The Audit Committee:

- Shall perform its duties in good faith, in a manner to be in the best interests of the Audit Committee and the ESUHSD which a reasonably prudent person in a similar position would use under similar circumstances.
- Shall have an obligation to the ESUHSD to maintain strict confidentiality regarding confidential information it may have access to.
- Shall meet at least three times per calendar year, and at additional times when necessary, to fulfill its responsibilities.
- Shall receive training and comply with the Brown Act.
- May ask members of management or others to attend its meetings and provide pertinent information as necessary.
- In consultation with the Board may have access to all information it deems necessary to carry out its duties, consistent with California law.
- May request information from the ESUHSD that is deemed necessary to carry out its duties and responsibilities. Only the Audit Committee Chair will make these requests for information. Any member wishing to request information will do so by submitting the approved Committee request form to the Audit Committee Chair for approval. If the

Audit Committee Chair approves the request, the Chair will send the request to the Board for processing. If the Chair does not approve the request, a majority of the Audit Committee may override the request denial. In the event of an override, the Chair is required to submit the request to the Board.

A quorum constitutes a simple majority of the total voting membership and meetings will not be conducted unless a quorum is present.

Every attempt will be made to make decisions by consensus of the voting members present. Consensus is defined as an acceptable solution that all can agree to support. If consensus cannot be reached, polling of the voting membership will take place. Any decision of the Audit Committee requires an affirmative vote by the majority of the committee's voting membership. Voting members who are physically absent from a meeting can participate through audio or video means. Proxies CANNOT be granted.

The Audit Committee may recommend to the Board the engagement of professional consultants. The authority to engage professional consultants rests exclusively with the Board.

The Audit Committee shall report to the Board, at least annually, its activities, findings, and decisions. Reported findings should include any suspected fraud or abuse or material defects in internal management controls, and any significant failure to comply with laws, or district policies or regulations.

The Chair prepares the agenda with consultation with the Vice Chair. Any member wishing to place an item on the agenda will do so by communicating in writing to the Chair.

The Audit Committee shall prepare minutes of each meeting that, at a minimum will include:

- Copies of the meeting agenda
- Date, attendance, and location of the meeting
- A brief summary of the topics discussed, and
- Any recommendations forwarded to the Board

The Audit Committee may recommend to the Board the dismissal of any member who has had two unexcused absences during the member's term or three absences, for any reason, in any twelve month time period. Dismissal requires a majority vote of the Board.

#### External Auditors

The Audit Committee oversees the ESUHSD's engagement of any independent accountants for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. The Board, acting on the recommendation of the Audit Committee, makes all final decisions concerning the appointment, compensation, and retention of such accountants.

The Audit Committee's oversight responsibility may include:

- 1) Monitoring the periodic selection of and contracting with, the outside independent auditor in accordance with State law, and reviewing the independence of the audit,

- 2) Meeting with the independent auditors prior to commencement of the annual audit to review the engagement letter (scope of the work to be performed),
- 3) Receiving and reviewing the draft annual audit report and draft management letter comments,
- 4) Reviewing all non-privileged significant written communications between the independent auditors and management, such as any schedule of unadjusted differences,
- 5) Making a recommendation to the Board concerning acceptance of the annual audit report,
- 6) Reviewing with management and external auditors:
  - a. The ESUHSD's annual financial statements, related footnotes, and management's discussion and analysis,
  - b. The external auditor's audit of the financial statements and their report thereon, including any management letter comments or schedule of unadjusted differences,
  - c. The external auditor's judgments about the quality, not just the acceptability, of the ESUHSD's accounting policies as applied in its financial reporting,
  - d. Any findings by the independent auditor regarding ESUHSD's system of internal controls,
  - e. Any significant changes required in the independent auditor's audit plan,
  - f. Restrictions on the auditor's activities or access to information, and any significant difficulties or disputes with the Superintendent or management encountered during the audit,
  - g. Matters required to be discussed by applicable government and professional literature and standards,
  - h. All critical accounting policies and practices used by the ESUHSD, any significant changes in these policies and practices, and the degree of aggressiveness or conservatism in applying these policies and practices,
  - i. Recent and proposed professional and regulatory pronouncements, especially those having a material impact on the ESUHSD's financial statements,
  - j. All alternative treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with the Board, the ramifications of each alternative, and the treatment preferred by the ESUHSD, and
  - k. Any corrective action plans developed by the ESUHSD.

The Audit Committee considers, with the Board, the rationale for employing audit firms other than the principal independent auditors for services that the ESUHSD or the independent auditors determine would not be appropriate for the principal independent auditors to perform.

#### Internal Audit

The Audit Committee:

- a) If requested, may make recommendations to the Board regarding the selection of an internal auditor,
- b) Assists in the oversight of any internal audit function,
- c) Reviews the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested,

- d) Reviews the results of internal audit activities and significant recommendations and finding of the internal auditor,
- e) Monitors implementation of the internal auditor's recommendations by the Superintendent and/or Board,

The Audit Committee and the internal auditor(s) shall maintain a degree of professional independence when assessing management's performance of its responsibilities. However, this does not mean that an adversarial role is necessary or desirable as both parties share common goals.

In working to ensure the independence of the internal auditing function and that appropriate actions are taken on audit findings, the Audit Committee shall promote and enhance the mutual cooperation among the Committee, internal auditor(s), and executive management.

#### **V. Self-Assessment**

The Audit Committee shall review its charter annually, reassesses the adequacy of the charter and recommends any proposed changes to the Board. The Audit Committee considers changes that are necessary as a result of new laws, regulations, or accounting or auditing standards.

The Audit Committee conducts an annual self-assessment and describes to the Board how it discharged its duties.

Adoption and amendments to this charter shall be recommended by an affirmative vote of a majority of the committee and by passage of the Board.

**EAST SIDE UNION HIGH SCHOOL DISTRICT  
Board Audit Committee - November 29, 2016  
Detail of Terms Appointed**

<b>Name</b>	<b>Title</b>	<b>Term(s) Appointed</b>	<b>Current Term Expiration Date</b>	<b>Years of Service</b>
Pattie Cortese	Chair	As Appointed Annually	December 8, 2016	
Van T. Le	Vice Chair	As Appointed Annually	December 8, 2016	
Dan Juchau	Member	1 <sup>st</sup> term Feb. 2010 – Jan. 2011 2 <sup>nd</sup> term Feb. 2011 – Jan. 2013 3 <sup>rd</sup> term Feb. 2013 – Jan. 2015 4 <sup>th</sup> term Feb. 2015 – Jan. 2017	January 31, 2017	7 thus far and 7 thru term
Bruce Berg	Member	1 <sup>st</sup> term Feb. 2010 – Jan. 2012 2 <sup>nd</sup> term Feb. 2012 – Jan. 2014 3 <sup>rd</sup> term Feb. 2014 – Jan. 2016 4 <sup>th</sup> term Feb. 2016 – Jan. 2018	January 31, 2018	7 thus far and 8 thru term
Jon Reinke	Member	1 <sup>st</sup> term Feb. 2012 – Jan. 2014 2 <sup>nd</sup> term Feb. 2014 – Jan. 2016 3 <sup>rd</sup> term Feb. 2016 – Jan. 2018	January 31, 2018	5 thus far and 6 thru term
Frank Stephens	Alternate Member	1 <sup>st</sup> term Feb. 2015 – Jan. 2016 2 <sup>nd</sup> term Feb. 2016 – Jan. 2017	January 31, 2017	2 thus far and 2 thru terms

Per Audit Committee Charter, revised December 10, 2015:

Public member terms will be for two years. The alternate public member term will be for one year. In order to coincide with the annual presentation of the external audit report to the Board, public member terms shall begin on February 1 and end two years later on January 31 or when the Board appoints a new member, whichever is later. Public member's terms will be staggered so that all terms do not start and end at the same time. Immediately after the initial appointment of the three public members, the Board shall determine by lot which two of the public members shall serve an initial term of two years with the third public member serving an initial term of one year. The maximum number of consecutive years a member may serve is nine. A termed out member is eligible for appointment again after not serving for at least one year.



**ITEM #14B**

## **EAST SIDE UNION HIGH SCHOOL DISTRICT SEEKS AUDIT COMMITTEE APPLICANTS**

The District invites applications from persons interested in serving on the school district's Audit Committee. Applicants must reside within the boundaries of the East Side Union High School District and meet other qualifications set forth in the Audit Committee Charter. The Board of Trustees will be appointing one committee member with a two-year term from February 1, 2017, through January 31, 2019, and one alternate with a one-year term from February 1, 2017, through January 31, 2018. Committee members currently serving in these positions may apply to be reappointed.

Interested community members may apply during the application period by submitting the following:

- An introductory cover letter summarizing why you should be considered for this appointment.
- A completed Audit Committee Membership Application.  
<http://www.esuhds.org/BoardAdmin/Board-Audit-Committee/index.html>
- The applicant/nominee will be required to provide written responses to the questions listed below:
  1. *Briefly describe any professional or community experience that you believe qualifies you to serve on the Audit Committee. You may attach a current resume.*
  2. *Briefly describe any previous experience/involvement with the East Side Union High School District and/or other public schools.*
  3. *Briefly state why you are interested in serving as a member of the Audit Committee for the East Side Union High School District.*
  4. *Briefly describe your understanding of the role of the Audit Committee.*

Applicants/nominees are invited to review the Audit Committee Charter at:

<http://www.esuhds.org/BoardAdmin/Board-Audit-Committee/index.html>

**DEADLINE FOR SUBMISSION OF MATERIALS:  
5:00 PM, January 5, 2017**

**For questions, contact:**

**Pattie Cortese, Board Trustee, via e-mail at [cortese@esuhds.org](mailto:cortese@esuhds.org)**

**Send application materials by mail, fax, e-mail or personal delivery to:**

ESUHSD Audit Committee  
c/o Mary Guillen  
East Side Union High School District  
830 N. Capitol Avenue, San Jose, CA 95133  
E-Mail: [GuillenM@esuhds.org](mailto:GuillenM@esuhds.org)  
Fax: 408.347.5015

**EAST SIDE UNION HIGH SCHOOL DISTRICT (“ESUHSD”)  
SAN JOSE, CALIFORNIA  
AUDIT COMMITTEE MEMBERSHIP APPLICATION**

First Name \_\_\_\_\_ Last Name \_\_\_\_\_

Home Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

E-Mail Address \_\_\_\_\_ Phone # \_\_\_\_\_

*Instructions: Please respond to the following questions. Attach additional sheets if necessary. All applicants must respond to all questions in the Conflict of Interest Questions portion below and sign and date this application.*

1. Briefly describe any professional or community experience that you believe qualifies you to serve on the Audit Committee. You may attach a current resume.
  
2. Briefly describe any previous experience/involvement with the East Side Union High School District and/or other public schools.
  
3. Briefly state why you are interested in serving as a member of the Audit Committee.
  
4. Briefly describe your understanding of the role of the Audit Committee.

**CONFLICT OF INTEREST QUESTIONS** *(All applicants must respond)*

1. Within the last two years, have you been employed with the ESUHSD? Yes \_\_\_ No \_\_\_

2. Within the last two years, have you sold goods or services to the ESUHSD? Yes \_\_\_ No \_\_\_

If “Yes,” please explain: \_\_\_\_\_

3. Within the last two years, have you owned or had a direct and material interest in an entity, or held a leadership position in any entity, which provides goods or services to the ESUHSD pursuant to a purchase order or contract ? Yes \_\_\_ No \_\_\_

If “Yes,” please explain: \_\_\_\_\_

4. Are you a close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under (1) through (3) above? (Close or immediate family members include parents, siblings, nondependent child, spouse or domestic partner, or dependent (whether or not related). Yes \_\_\_ No \_\_\_

The above responses to the Conflict of Interest Questions are true and correct.

Signed: \_\_\_\_\_ Dated: \_\_\_\_\_

*The Governing Board may grant an exception to a potential conflict of interest, if, after full disclosure to the Board, the potential conflict is found not to be material.*

Applicants should review the Audit Committee Charter, a copy of which is available at the District’s Education Center or online at:

<http://www.esuhd.org/BoardAdmin/Board-Audit-Committee/index.html>