

MEETING AGENDA
Board Audit Committee

6:00 PM

December 5, 2017

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 September 12, 2017, meeting will be presented for approval.

External Auditor

7. Discussion/Action: Annual Audit 2016-17

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will provide an update from the final testing and will present the following draft reports for the year ended June 30, 2017:

- 7A. Annual Audited Actual Financial Report
- 7B. 2002 Measure G Fund Annual Financial Report
- 7C. 2008 Measure E Fund Annual Financial Report
- 7D. 2012 Measure I Fund Annual Financial Report
- 7E. 2014 Measure I Fund Annual Financial Report
- 7F. 2016 Measure Z Fund Annual Financial Report

Chair / Vice Chair

8. Discussion/Action: Updates

Pattie Cortese, Chair, and Lan Nguyen, Vice Chair, will provide updates, if any.

Superintendent / Associate Superintendent of Business Services

9. Discussion/Action: Synthetic Turf Maintenance Audit Report – Final Remediation

Marcus Battle, Associate Superintendent of Business Services, and Julio Lucas, Director of Construction, Maintenance, and Facilities, will report on the final resolution of the Synthetic Turf Maintenance Audit Report FY16-06 dated March 25, 2016, originally presented to the Audit Committee on April 4, 2016.

10. Discussion/Action: Facility Use: Custodial Hours Audit Report – Final Remediation

Marcus Battle, Associate Superintendent of Business Services, and Janice Unger, Director of Purchasing and Capital Accounting, will report on the final resolution of the Facility Use: Custodial Hours Audit Report FY17-01 dated August 17, 2016, originally presented to the Audit Committee on August 23, 2016.

11. Discussion/Action: Staff Time Charged to Bond Fund Audit Report – Final Remediation

Marcus Battle, Associate Superintendent of Business Services, and Silvia Pelayo, Director of Finance, will report on the final resolution of the Staff Time Charged to Bond Fund Audit Report FY17-03 dated August 17, 2016, originally presented to the Audit Committee on August 23, 2016.

Senior Manager of Internal Controls

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

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

13. Discussion/Action: School Connected Organizations

Kelly Kwong, Senior Manager of Internal Controls, will provide an update on School Connected Organizations.

14. 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.

Audit Committee Business

15. Discussion/Action: Audit Committee Members – Terms and Appointment Process Review

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

15A. Member Terms

15B. Draft Announcement Seeking Applicants

15C. Draft Member Application

16. Discussion/Action: Future Meetings

Audit Committee to schedule the next meeting.

17. Superintendent Communications/Comments

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

18. 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.

19. Future Agenda Items

20. Adjournment

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Unapproved

Item: 6

Board Audit Committee

September 12, 2017

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

Chair Pattie Cortese called the meeting to order at 6:02 PM.

Committee members present for roll call:

Chair Cortese, Vice Chair Nguyen, Member Berg, Member Juchau, Member Reinke and Alternate Member Stephens

Staff present:

- *Marcus Battle*
- *Kelly Kwong*
- *Silvia Pelayo*
- *Julie Kasberger*
- *Mary Guillen*

Presenter present:

- *Joyce Peters, External Auditor – VTD*

2. Introductions

Chair Cortese extended a welcome to members of the Audit Committee and audience. Each Committee Member and members of the audience introduced themselves.

3. Adopt Agenda

There were no changes to the agenda.

4. Special Order of Business

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

There was no special order of business.

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, 2017, meeting will be presented for approval.

Motion by Member Juchau, second by Member Berg, to approve the Board Audit Committee Minutes of April 4, 2017, as presented.

Vote: 5/0; motion carries

External Auditor

7. Discussion/Action: Annual Audit 2016-17

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the 2016-17 engagement letters and the scope of work to be performed for the annual financial audit and the bond audit reports. Also, the results from the recent school site testing will be provided.

Joyce Peters, External Auditor, shared with the Committee that there are a few items that are pending and that she will follow up in the final audit; everything is on track.

Chair / Vice Chair

8. Discussion/Action: Updates

Pattie Cortese, Chair, and Lan Nguyen, Vice Chair, will provide updates.

Proposed amendments to Board Policy #3460 Financial Reports and Accountability is to clarify the role of the Senior Manager of Internal Controls as it relates to working directly with the ESUSHD Board of Trustees.

Superintendent / Associate Superintendent of Business Services

9. Discussion/Action: Child Nutrition Services Audit Report

Marcus Battle, Associate Superintendent of Business Services, and Julie Kasberger, Director of General Services, will present a progress update on the recommendations from the Child Nutrition Services Audit Report FY16-02 dated August 21, 2015, originally presented to the Audit Committee on August 25, 2015, with an update on December 7, 2015. A presentation will also be given about the Point of Sale System for a la carte.

Julie Kasberger discussed the 9 findings as identified in Child Nutrition Services Audit Report FY 16-02.

Findings 1, 2, 4 and 8 have to do with the capabilities of our current system. With the financial management system out for RFP, they will be moving forward on those four areas as soon as the financial system is in place.

Finding 5 is the a la carte system, which she will go into greater detail in her presentation to the Audit Committee.

Finding 7 is close to being done. Julie will be able to report at a future meeting.

The following is a summary of the presentation on the Point-of-Sales System (POS) for A La Carte Items.

- *A Point of Service (POS) is a computerized accountability system, “cash register”*
- *Phase 1 installation was completed in August, 2016. Terminals were installed on all reimbursable meal lines. Reimbursable meal information consolidated to district totals.*
- *POS directly connected to student information system*
- *Phase 2 installation date is September, 2017. Terminals installed on all a la carte lines. A la carte sales information and reconciliation of money. All POS in CNS Program are equipped with a terminal.*
- *A la carte provide additional foods and beverages outside the reimbursable meal*

- *Additional points of service and food choices*
- *Opportunity for student work experience*
- *\$800,000 income annually*

10. Discussion/Action: New Administrative Bulletin ASB Ticket Control Log

Marcus Battle, Associate Superintendent of Business Services, and Silvia Pelayo, Director of Finance, will present the new Administrative Bulletin No. 014 Associated Student Body (ASB) Ticket Control Log.

New Administrative Bulletin 014 (AB 014) ASB Ticket Control Log was presented to the Audit Committee. This is an accountability system/guidelines for event ticket control. The tickets have monetary value, which are stored in a safe by the School-Finance Clerk.

Reconciliation:

- *Identified/logged on a form are the first and last ticket number*
- *Keep log to track the numbers*
- *Used by School-Finance Clerks and Activities Directors*
- *A check and balance; separation of duties*
- *VTD will audit yearly three sites*
- *Broken sequence in ticket numbers will result in holding persons accountable; resulting in a follow up with the individual*

The Committee requested a follow up on the monitoring/outcome of the roll out of AB 014.

Senior Manager of Internal Controls

11. 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 she offers updated ASB training as needed/requested by staff. The Committee discussed uniformity in the reimbursement process.

12. Discussion /Action: School Connected Organizations

Kelly Kwong, Senior Manager of Internal Controls, will provide an update on School Connected Organization matters.

The annual renewal deadline for School Connected Organizations (SCOs) is October 1. All SCOs have been notified of the renewal deadline date. A courtesy reminder is scheduled to be sent out. Kelly Kwong reviews the renewal application(s) and presents to Associate Superintendent Battle for consideration/approval of annual renewal.

13. 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.

The fraud, waste and abuse hotline is in process of being renewed. The new three-year contract will terminate on September 6, 2020; a total cost of \$7,665 (approx. \$,2,500/yr).

There have been two calls received since the last meeting; both issues have been resolved. For the record, Kelly Kwong indicated that she responds via the hotline system to reporters, but reporters do not log back into the system to retrieve their message(s).

14. Discussion/Action: Internal Audit Reports

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

A. FY17-1 Bond Fund: Expenditure and Payment Procedures Audit Report

Kelly Kwong complimented Business Services for engaging outside consultants on a performance audit that is performed every other year, including the diligence and willingness to implement the audit recommendations. She also commended them for their implementation of the accounting management financial system and the Echo Sign system.

B. FY17-2 Bond Fund: Conflict of Interest Audit Report

Recommended change is that all sign a Conflict of Interest Statement.

C. FY17-3 Employee Other Reimbursement Audit Report

Board Policy #3314 indicates that a receipt(s) must be submitted when requesting reimbursement.

D. FY17-4 Payroll Operational Review Follow-up Audit Report

There were no questions by the Committee on this item.

E. FY17-5 Credit Cards Audit Report

Discussion held regarding the use of District-issued credit cards and the idea of an official approved list of authorized credit card users/signers.

F. FY17-6 Employee Travel and Conference Audit Report

There were no questions by the Committee on this item.

G. FY17-7 Employee Car Allowance and Mileage Reimbursement Audit Report

Discussion was held regarding direct links to Board Policies and Administrative Regulations in BoardDocs, instead of linking to a PDF document. This will ensure that staff and public view the most current version.

Kelly Kwong informed the Committee that these audit reports will be presented to the Board at their September 19, 2017, meeting under "Written Reports."

15. Discussion/Action: Proposed Annual Audit Work Plan

Kelly Kwong, Senior Manager of Internal Controls, will present the Proposed Annual Audit Work Plan for 2017-18.

Chair Cortese asked that the proposed Annual Audit Work Plan include what is still open (still in parking lot). Senior Manager of Internal Controls indicated that she keeps a remediation log in order to track the progress of previously issued audit reports.

Items 1-3 in the proposed Work Plan are new priorities and item 4 is the work of ongoing/open reports.

Reviewed annually is the funding of the Senior Manager of Internal Controls, which currently are 75% general fund and 25% bond.

Audit Committee Business

16. Discussion/Action: Future Meetings

Audit Committee will schedule the next meeting date and time.

The next Board Audit Committee will be held on December 5, 2017, at 6:00 PM in the ESUHSD Superintendent's Conference Room.

Additional dates set by the Committee are as follows:

- *March 27, 2018, at 6 PM*
- *April 3 will remain as an option if March 27 does not work out*

17. Superintendent Communications/Comments

- Chris D. Funk, Superintendent
- Marcus Battle, Associate Superintendent of Business Services
 - *Mr. Battle thanked Mr. Stephens for serving on the committee for the bond program management selection process. He also thanked Mr. Reinke for serving on the Director of Finance interview panel.*

18. 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.

Alternate Member Stephens shared his concerns after recently serving as a committee member on the bond program management selection process. He will be following up with an email regarding his concerns to administration. Associate Superintendent Battle indicated that areas that were problematic will be reviewed for refinement in process(es).

19. Future Agenda Items

Recurring calendar item:

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

20. Adjournment

Chair Cortese adjourned the meeting at 8:00 PM.

Respectfully submitted,

*Pattie Cortese
Board Audit Committee Chair*

**EAST SIDE UNION
HIGH SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2017**

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EAST SIDE UNION HIGH SCHOOL DISTRICT

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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 (District) as of and for the year ended June 30, 2017, 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 *2016-2017 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, each major fund, and the aggregate remaining fund information of the East Side Union High School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 pension 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 [REDACTED], 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of East Side Union High School District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Side Union High School District’s internal control over financial reporting and compliance.

Palo Alto, California
[REDACTED], 2017

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Preparing every student to thrive in a global society.

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standard Board (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, 2017

FINANCIAL HIGHLIGHTS OF THE CURRENT YEAR

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

- The enrollment reported in the California Basic Educational Data System (CBEDS) increased by 50 from 2015-16 of 23,237 to 23,287 in 2016-17. Second period average daily attendance (commonly known as P-2 ADA) decreased by 17 from 2015-16 of 22,072 to 22,055 in 2016-17.
- The net Local Control Funding Formula (LCFF) ADA base is \$8,578 and supplemental per ADA is \$928 with 52.7% 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 \$6 million.
- The District received the new College Readiness Block Grant of \$1.9 million.
- The District provided all employees with a 2.25% salary increase and still covers 100% medical benefit.
- The District monitors the budget conservatively and has a \$43 million unassigned general fund balance that includes \$1.9 million for the supplemental program balance. The District also has \$4.7 million restricted fund balance for various restricted categorical programs and \$8.3 million in General Reserve.
- 2016-17 was the second year of 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 method 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, 2017

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 9th through 12th 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.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$90.7 million deficit and \$87.7 million deficit for the fiscal years ended June 30, 2017 and 2016, 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

	Governmental Activities		Business-Type Activities	
	2017	2016 *	2017	2016 *
Current and other assets	\$ 421,218,626	\$ 306,912,483	\$ 53,635	\$ 26,702
Prepays for other post-employment benefits (OPEB)	23,315,603	24,606,664	-	-
Capital assets	690,569,210	646,949,790	-	-
Total Assets	1,135,103,439	978,468,937	53,635	26,702
Deferred charge on refunding	10,091,662	13,786,393	-	-
Deferred outflows from pension	62,255,476	39,399,964	1,372,742	642,368
Total Deferred Outflows	72,347,138	53,186,357	1,372,742	642,368
Current liabilities	60,620,648	39,009,331	53,635	26,702
Long-term obligations	972,189,811	840,351,961	-	-
Aggregate net pension liability	231,551,236	214,047,658	4,235,801	3,120,972
Total Liabilities	1,264,361,695	1,093,408,950	4,289,436	3,147,674
Deferred inflows from pension	30,774,926	22,995,864	127,261	464,050
Total Deferred Inflows	30,774,926	22,995,864	127,261	464,050
Net position				
Net investment in capital assets	(8,587,358)	(6,314,198)	-	-
Restricted	89,179,199	78,624,885	-	-
Unrestricted	(168,277,885)	(157,060,207)	(2,990,320)	(2,942,654)
Total Net Position	\$ (87,686,044)	\$ (84,749,520)	\$ (2,990,320)	\$ (2,942,654)

* 2015-16 data reflect the impact of prior period net position adjustment for allocation of pension-related activities between governmental activities and business-type activities. See Note 18.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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	
	2017	2016 *	2017	2016 *
Revenues				
Program revenues				
Charges for services	\$ 175,038	\$ 143,032	\$ 1,501,004	\$ 1,451,410
Operating grants and contributions	40,387,516	39,836,701	4,955,872	5,404,903
Capital grants and contributions	-	3,674,672	-	-
General revenues				
State and federal sources	99,685,615	132,111,785	-	-
Taxes	193,393,941	159,666,317	-	-
Other general revenues	14,073,330	10,769,185	672,172	82,874
Total Revenues	347,715,440	346,201,692	7,129,048	6,939,187
Expenses				
Instruction related	223,108,320	209,551,946	-	-
Student support services	37,180,659	35,775,109	-	-
Administration	15,740,918	12,249,166	334,301	300,900
Maintenance and operations	27,054,138	25,866,433	-	-
Other outgo	7,491,668	6,285,468	-	-
Food services	-	-	6,842,413	6,601,896
Interest and other	40,076,261	37,620,930	-	-
Total Expenses	350,651,964	327,349,052	7,176,714	6,902,796
Change in Net Position	\$ (2,936,524)	\$ 18,852,640	\$ (47,666)	\$ 36,391

* 2015-16 data reflect the impact of prior period net position adjustment for allocation of pension-related activities between governmental activities and business-type activities. See Note 18.

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 \$350.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$193.4 million because the cost was paid by those who benefited from the programs (\$0.2 million) or by other governments and organizations who subsidized certain programs with operating and capital grants and contributions (\$40.4 million). We paid for the remaining public benefit portion of our governmental activities with \$114.4 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, 2017

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

	<u>2017</u>	<u>2016</u>
Instruction and related activities	\$ 189,335,066	\$ 171,219,075
Pupil services	32,389,436	32,472,915
General administration	14,578,055	10,922,531
Maintenance and operations	26,577,732	25,369,938
Interest	37,055,227	34,750,706
Other	10,153,894	8,923,091
Totals	<u>\$ 310,089,410</u>	<u>\$ 283,658,256</u>

THE DISTRICT’S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$362.7 million, which was an increase of \$92.5 million from last year. The significant increase in the combined fund balance was due to the increase 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 71).

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 \$928 with 52.7% 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) increased by 50 from 2015-16 of 23,237 to 23,287 in 2016-17. Second period average daily attendance (commonly known as P-2 ADA) decreased by 17 from 2015-16 of 22,072 to 22,055 in 2016-17.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District governmental activities had \$690.6 million in a broad range of capital assets. This amount represents a net increase (including additions, deductions and depreciation) of \$43.6 million, or 6.7%, from last year.

Table 4

	Governmental Activities	
	2017	2016
Land	\$ 25,442,454	\$ 25,442,454
Construction in progress	98,988,353	58,581,828
Buildings and improvements	784,591,014	757,788,020
Furniture and equipment	26,278,973	33,980,875
Total Assets	935,300,794	875,793,177
Less Accumulated Depreciation	244,731,584	228,843,387
Totals	\$ 690,569,210	\$ 646,949,790

Several capital projects are planned for the 2017-18 and 2018-19 fiscal years. We anticipate capital expenditures to be approximately \$181 million for the two upcoming fiscal years.

Major Projects Completed for Fiscal Year 2016-17:

- 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
- Foothill High School – Building D Computer Lab Modernization
- 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 – 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
- District Wide – Security Camera Upgrade: Phase 2, 3 and 4

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

The following Measures G, E, I and Z Projects are Planned for Fiscal Year 2017-18:

- Alternative Education – Post Senior North
- Andrew Hill High School – Courtyards, Site and Infrastructure Improvements
- Andrew Hill High School – Windows Replacement in Building F (Gym)
- Foothill High School – Building F Hooper Hall Modernization
- Foothill High School – Quad Upgrade and Infrastructure Improvements
- Independence High School – Alternative Education Facility Upgrades Including Buildings G, H, K and J
- Independence High School – Infrastructure – Electrical Services
- 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
- Santa Teresa High School – Improve Entry and Upgrade Safety Measures at Student Parking Lot
- Santa Teresa High School – Upgrade Landscape and Hardscape
- 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 – Swimming Pools Modernizations
- District Wide – Infrastructure – ADA Walkway at Andrew Hill, Independence, and Yerba Buena High Schools
- District Wide – Infrastructure – Site Hardscape at Andrew Hill, Santa Teresa and Yerba Buena High Schools
- District Wide – Infrastructure – Synthetic Turf Field at Andrew Hill, Foothill, James Lick, Oak Grove, Piedmont Hills and Yerba Buena High Schools
- District Wide – Fire Alarm Modernization
- District Wide – Mechanical, Electrical
- District Wide – Roofing Replacements

The Following Measures G, E and I Projects are Planned for Fiscal Year 2018-19:

- 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 – Infrastructure Upgrade
- Yerba Buena High School – New Student Center and Quad Modernization

EAST SIDE UNION HIGH SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Long-Term Obligations Other Than Pension Liability

Table 5

	Governmental Activities	
	2017	2016
General obligation bonds	\$ 876,814,244	\$ 756,524,725
Premium	60,174,890	51,038,107
OPEB revenue bonds	29,440,000	29,955,000
Supplemental retirement plan	3,386,500	-
Compensated absences (vacation)	2,374,177	2,834,129
Totals	\$ 972,189,811	\$ 840,351,961

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 \$972.2 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, 2017. 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:

<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	\$ 178,546,485	\$ 45,077,656	\$ 29,182,449	\$ 17,249,389
CalPERS	57,240,552	18,550,562	1,719,738	5,821,273
Total	\$ 235,787,037	\$ 63,628,218	\$ 30,902,187	\$ 23,070,662

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017 ARE NOTED BELOW:

2015-16 was 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 2015-16 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 85% for 2016-17 was 1.8% higher than the average State rate of 83.2%. Also, dropout rates decreased. The dropout rate for the District was 9.9% in 2016-17 compared with 11.7% in 2015-16. 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 45.5% in 2016-17 compared with 43.1% in 2015-16.

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 2016-17, a total of 9,942 AP exams were taken and there were a total of 5,119 students who took the exams. This is a decrease of 411 exams and 273 students. Using grades 10 to 12 CBEDS enrollment, 29.4% of students took at least one AP exam and of those students, 64.3% scored a 3 out of 5 or higher on at least one exam.

The District waives fees to encourage 10th grade students to take the Preliminary Scholastic Aptitude Test (PSAT), and all 10th graders are given the opportunity to take the test, which prepares 11th graders the following year for the Scholastic Aptitude Test (SAT). Depending on the results, 11th grade students who take the PSAT may qualify for college scholarships through the National Merit Scholarship Program. In 2016-17, 36% of the District's students met the college readiness indicators in both Evidenced-Based Reading/Writing and Mathematics.

50.5% of the District's students scored college ready on the SAT in 2016-17, which is 8.58% higher than the State.

On the California Assessment of Student Performance and Progress (CAASPP), District Math percentages for Standard Met or Exceeded in 2016 and 2017 were 39% and 41%, respectively, and were higher than the State rates of 33% and 32%, respectively. The District English Language Arts (ELA)/Literacy percentages for Standard Met or Exceeded in 2015-16 and 2016-17 were 62% and 66% respectively, and higher than the State rates of 59% and 60% respectively.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

- Students constructed solar powered suitcases that are compact, portable and provide easy, efficient lighting and electricity to people in need. The Solar Suitcases will be donated to help 10,000 Kenyan students.
- Won Best Biography in the Real to Reel Global Youth Festival, an international youth festival that took place in Hollywood, California, the capitol of the film industry. The students also received the United States Congressional Recognition for the film.
- Created a Model United Nations 2017 team which took second place at the National Model United Nations Conference in New York in March 2017. The students took the opportunity to speak with diplomats from the Mission of Serbia and military generals, among other high ranking officials.
- Won 1st, 2nd, and 3rd place in the 2017 county-wide "Justice for All" Writing Contest. The writing competition topic was race and law enforcement. The District Attorney, Jeff Rosen, was interested in students' thoughts about the rising tension between law enforcement agencies and the communities they serve and how they can work together to make things better.

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 2017-18 is 43.19% with the unduplicated count percentage at 52.6%. The District student enrollment is projected to increase by 82 for 2017-18, but anticipates a downturn in 2018-19 and 2019-20. The projected 2017-18 and 2018-19 CBEDS enrollment is 23,369 and 22,639, respectively.

The District projects to receive another one time discretionary grant in lieu of the Mandated Cost Reimbursement of \$3.3 million in 2017-18.

The District will receive an additional \$2.1 million for the Career Technical Education Incentive Grant which expires in 2018-19.

In 2016-17, the District accepted and enrolled 14 international students in the new International Student Program for the 2016-17 school year. In 2017-18, the District has accepted and enrolled 20 students for studying in this program. The program is continuing to grow and is on pace to reach new heights in 2018-19.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 406,520,306	\$ 2,263,868	\$ 408,784,174
Receivables	10,622,429	704,557	11,326,986
Internal balances	3,060,602	(3,060,602)	-
Prepaid expenses	782,802	-	782,802
Stores inventories	232,487	145,812	378,299
Post-employment benefits contributions	23,315,603	-	23,315,603
Capital assets not depreciated	124,430,807	-	124,430,807
Capital assets, net of accumulated depreciation	566,138,403	-	566,138,403
Total Assets	1,135,103,439	53,635	1,135,157,074
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	10,091,662	-	10,091,662
Deferred outflows of resources related to pensions	62,255,476	1,372,742	63,628,218
Total Deferred Outflows of Resources	72,347,138	1,372,742	73,719,880
LIABILITIES			
Accounts payable	26,895,476	53,635	26,949,111
Interest payable	14,425,211	-	14,425,211
Unearned revenue	17,936,574	-	17,936,574
Claims liabilities	1,363,387	-	1,363,387
Current portion of long-term obligations other than pensions	58,573,005	-	58,573,005
Noncurrent portion of long-term obligations other than pensions	913,616,806	-	913,616,806
Aggregate net pension liability	231,551,236	4,235,801	235,787,037
Total Liabilities	1,264,361,695	4,289,436	1,268,651,131
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	30,774,926	127,261	30,902,187
Total Deferred Inflows of Resources	30,774,926	127,261	30,902,187
NET POSITION			
Net investment in capital assets	(8,587,358)	-	(8,587,358)
Restricted for:			
Debt service	49,753,483	-	49,753,483
Capital projects	21,596,467	-	21,596,467
Educational programs	5,469,425	-	5,469,425
Self insurance	12,359,824	-	12,359,824
Unrestricted	(168,277,885)	(2,990,320)	(171,268,205)
Total Net Position	\$ (87,686,044)	\$ (2,990,320)	\$ (90,676,364)

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, 2017**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 184,962,268	\$ 111,265	\$ 23,161,492
Instruction-related activities:			
Supervision of instruction	18,783,939	30,757	7,431,492
Instructional library and technology	1,076,310	-	80,156
School site administration	18,285,803	9,265	2,948,827
Pupil services:			
Home-to-school transportation	7,552,795	-	-
All other pupil services	29,627,864	16,461	4,774,762
Administration:			
Data processing	3,096,446	-	-
All other administration	12,644,472	949	1,161,914
Maintenance and operations	27,054,138	669	475,737
Ancillary services	2,983,540	1,566	119,257
Community services	37,494	993	30,704
Interest on long-term obligations	37,055,227	-	-
Other outgo	7,491,668	3,113	203,175
Total Governmental Activities	350,651,964	175,038	40,387,516
Business-Type Activities:			
Food services	6,842,413	1,430,618	4,723,477
Administration	334,301	70,386	232,395
Total Business-Type Activities	7,176,714	1,501,004	4,955,872
Total Primary Government	\$ 357,828,678	\$ 1,676,042	\$ 45,343,388

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, as restated (see Note 18)

Net Position - Ending

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

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

Governmental Activities	Business- Type Activities	Total
\$ (161,689,511)	\$ -	\$ (161,689,511)
(11,321,690)	-	(11,321,690)
(996,154)	-	(996,154)
(15,327,711)	-	(15,327,711)
(7,552,795)	-	(7,552,795)
(24,836,641)	-	(24,836,641)
(3,096,446)	-	(3,096,446)
(11,481,609)	-	(11,481,609)
(26,577,732)	-	(26,577,732)
(2,862,717)	-	(2,862,717)
(5,797)	-	(5,797)
(37,055,227)	-	(37,055,227)
(7,285,380)	-	(7,285,380)
<u>(310,089,410)</u>	<u>-</u>	<u>(310,089,410)</u>
-	(688,318)	(688,318)
-	(31,520)	(31,520)
-	(719,838)	(719,838)
<u>(310,089,410)</u>	<u>(719,838)</u>	<u>(310,809,248)</u>
129,893,484	-	129,893,484
61,428,721	-	61,428,721
2,071,736	-	2,071,736
99,685,615	-	99,685,615
2,412,050	-	2,412,050
427,698	-	427,698
-	672,172	672,172
<u>11,233,582</u>	<u>-</u>	<u>11,233,582</u>
<u>307,152,886</u>	<u>672,172</u>	<u>307,825,058</u>
(2,936,524)	(47,666)	(2,984,190)
(84,749,520)	(2,942,654)	(87,692,174)
<u>\$ (87,686,044)</u>	<u>\$ (2,990,320)</u>	<u>\$ (90,676,364)</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	Building Fund
ASSETS		
Deposits and investments	\$ 61,059,380	\$ 234,716,814
Receivables	8,852,485	523,462
Due from other funds	3,902,395	-
Prepaid expenditures	-	229,868
Stores inventories	232,487	-
Total Assets	\$ 74,046,747	\$ 235,470,144
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 17,359,798	\$ 7,729,240
Due to other funds	-	-
Unearned revenue	8,688,908	-
Total Liabilities	26,048,706	7,729,240
Fund Balances:		
Nonspendable	234,987	229,868
Restricted	4,688,353	227,511,036
Committed	-	-
Assigned	-	-
Unassigned	43,074,701	-
Total Fund Balances	47,998,041	227,740,904
Total Liabilities and Fund Balances	\$ 74,046,747	\$ 235,470,144

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

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 9,362,404	\$ 64,075,031	\$ 24,117,772	\$ 393,331,401
30,394	103,663	1,112,411	10,622,415
-	-	-	3,902,395
-	-	-	229,868
-	-	-	232,487
<u>\$ 9,392,798</u>	<u>\$ 64,178,694</u>	<u>\$ 25,230,183</u>	<u>\$ 408,318,566</u>
\$ 313,473	\$ -	\$ 1,474,323	\$ 26,876,834
-	-	841,793	841,793
<u>9,077,737</u>	<u>-</u>	<u>169,929</u>	<u>17,936,574</u>
<u>9,391,210</u>	<u>-</u>	<u>2,486,045</u>	<u>45,655,201</u>
-	-	-	464,855
-	64,178,694	22,377,539	318,755,622
-	-	366,599	366,599
1,588	-	-	1,588
-	-	-	43,074,701
<u>1,588</u>	<u>64,178,694</u>	<u>22,744,138</u>	<u>362,663,365</u>
<u>\$ 9,392,798</u>	<u>\$ 64,178,694</u>	<u>\$ 25,230,183</u>	<u>\$ 408,318,566</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

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

		\$ 362,663,365
Total Fund Balance - Governmental Funds		
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	\$ 935,300,794	
Accumulated depreciation is	<u>(244,731,584)</u>	690,569,210
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.		10,091,662
Deferred inflows and outflows related to pension liability are not due in the current period and therefore are not reported on the governmental funds.		31,480,550
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.		(14,425,211)
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.		23,315,603
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.		12,359,824
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	(876,814,244)	
Bond premiums	(60,174,890)	
OPEB revenue bonds	(29,440,000)	
Supplemental retirement plan	(3,386,500)	
Compensated absences (vacation)	(2,374,177)	
Net pension liability	<u>(231,551,236)</u>	<u>(1,203,741,047)</u>
Total Net Position - Governmental Activities		<u><u>\$ (87,686,044)</u></u>

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

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund
REVENUES		
Local control funding formula	\$ 219,668,650	\$ -
Federal sources	11,548,811	-
Other State sources	27,734,077	-
Other local sources	9,717,225	1,494,815
Total Revenues	268,668,763	1,494,815
EXPENDITURES		
Current		
Instruction	159,510,092	-
Instruction-related activities:		
Supervision of instruction	16,271,982	-
Instructional library and technology	926,592	-
School site administration	13,971,557	-
Pupil services:		
Home-to-school transportation	6,790,755	-
All other pupil services	26,466,324	-
Administration:		
Data processing	2,784,029	-
All other administration	10,500,265	-
Maintenance and operations	20,864,250	-
Ancillary services	2,682,515	-
Community services	33,711	-
Other outgo	6,719,496	-
Facility acquisition and construction	1,933,243	65,236,362
Debt service		
Principal	515,000	-
Interest and other	1,588,993	-
Total Expenditures	271,558,804	65,236,362
Excess (Deficiency) of Revenues Over Expenditures	(2,890,041)	(63,741,547)
Other Financing Sources (Uses)		
Transfers in	-	-
Proceeds from sale of bond	-	150,970,000
Transfers out	(986,395)	-
Net Financing Sources (Uses)	(986,395)	150,970,000
NET CHANGE IN FUND BALANCES	(3,876,436)	87,228,453
Fund Balance - Beginning	51,874,477	140,512,451
Fund Balance - Ending	\$ 47,998,041	\$ 227,740,904

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

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 219,668,650
-	-	1,495,606	13,044,417
2,125,026	383,992	8,001,137	38,244,232
13	61,044,309	2,494,441	74,750,803
<u>2,125,039</u>	<u>61,428,301</u>	<u>11,991,184</u>	<u>345,708,102</u>
-	-	5,629,603	165,139,695
-	-	659,607	16,931,589
-	-	41,123	967,715
-	-	2,469,298	16,440,855
-	-	-	6,790,755
-	-	172,235	26,638,559
-	-	-	2,784,029
-	-	334,780	10,835,045
-	-	537,545	21,401,795
-	-	-	2,682,515
-	-	-	33,711
-	-	-	6,719,496
2,125,026	-	4,462,086	73,756,717
-	32,828,665	-	33,343,665
-	30,377,275	-	31,966,268
<u>2,125,026</u>	<u>63,205,940</u>	<u>14,306,277</u>	<u>416,432,409</u>
13	(1,777,639)	(2,315,093)	(70,724,307)
-	-	214,223	214,223
-	13,032,569	-	164,002,569
-	-	-	(986,395)
-	13,032,569	214,223	163,230,397
13	11,254,930	(2,100,870)	92,506,090
1,575	52,923,764	24,845,008	270,157,275
<u>\$ 1,588</u>	<u>\$ 64,178,694</u>	<u>\$ 22,744,138</u>	<u>\$ 362,663,365</u>

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, 2017

Total Net Change in Fund Balances - Governmental Funds **\$ 92,506,090**

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	\$ 68,382,544	
Depreciation expense	<u>(24,763,124)</u>	43,619,420

Obligations from supplemental retirement are not recognized in the governmental funds, but increase long-term obligations in the statement of net position and does not affect the statement of activities. (3,386,500)

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. (150,970,000)

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. (2,148,184)

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. (13,032,569)

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	32,828,665	
OPEB revenue retirement	<u>515,000</u>	33,343,665

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, 2017

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.	(2,181,778)
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.	3,895,786
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.	(3,694,731)
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 \$459,952.	459,952
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.	(2,427,128)
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.	(1,291,061)
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.	2,370,514
Change in Net Position - Governmental Activities	<u>\$ (2,936,524)</u>

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, 2017**

	Business-Type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund	Memorandum Total
ASSETS			
Current Assets			
Deposits and investments	\$ 2,263,868	\$ 13,188,905	\$ 15,452,773
Receivables	704,557	14	704,571
Prepaid expenses	-	552,934	552,934
Stores inventories	145,812	-	145,812
Total Current Assets	<u>3,114,237</u>	<u>13,741,853</u>	<u>16,856,090</u>
LIABILITIES			
Current Liabilities			
Accounts payable	53,635	18,642	72,277
Due to other funds	3,060,602	-	3,060,602
Claim liabilities	-	1,363,387	1,363,387
Total Current Liabilities	<u>3,114,237</u>	<u>1,382,029</u>	<u>4,496,266</u>
NET POSITION			
Restricted for insurance programs	-	12,359,824	12,359,824
Total Net Position	<u>\$ -</u>	<u>\$ 12,359,824</u>	<u>\$ 12,359,824</u>

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, 2017**

	Business-Type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund	Memorandum Total
OPERATING REVENUES			
Food sales	\$ 1,501,004	\$ -	\$ 1,501,004
Indistrict contributions	-	11,720,798	11,720,798
Other local revenue	4,528	297,964	302,492
Total Operating Revenues	1,505,532	12,018,762	13,524,294
OPERATING EXPENSES			
Payroll costs	4,825,121	-	4,825,121
Supplies and materials	1,887,057	3,522	1,890,579
Equipment rental	28,766	26,365	55,131
Claims	-	9,684,170	9,684,170
Other operating expenses	388,104	34,191	422,295
Total Operating Expenses	7,129,048	9,748,248	16,877,296
Operating Income (Loss)	(5,623,516)	2,270,514	(3,353,002)
NONOPERATING REVENUES			
Federal grants	4,618,618	-	4,618,618
State grants	332,726	-	332,726
Other transfer in	672,172	100,000	772,172
Total Nonoperating Revenues	5,623,516	100,000	5,723,516
Change in net position	-	2,370,514	2,370,514
Total Net Position - Beginning	-	9,989,310	9,989,310
Total Net Position - Ending	\$ -	\$ 12,359,824	\$ 12,359,824

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, 2017**

	Business- Type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 1,453,114	\$ 400,368
Cash received from indistrict contributions	-	11,720,798
Cash payments to employees for services	(4,825,121)	-
Cash payments for insurance claims	-	(8,658,942)
Cash payments to suppliers for goods and services	(1,925,118)	(12,632)
Cash payments for equipment rental	(28,766)	(26,365)
Cash payments for other operating expenses	(388,104)	(34,191)
Net Cash Provided by (Used For) Operating Activities	<u>(5,713,995)</u>	<u>3,389,036</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Operating grants and contributions	4,951,344	-
Cash received from General Fund	1,352,390	100,000
Net Cash Provided by Financing Activities	<u>6,303,734</u>	<u>100,000</u>
Net increase in cash and cash equivalents	589,739	3,489,036
Cash and cash equivalents - Beginning	1,674,129	9,699,869
Cash and cash equivalents - Ending	<u>\$ 2,263,868</u>	<u>\$ 13,188,905</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Operating income (loss)	\$ (5,623,516)	\$ 2,270,514
Changes in assets and liabilities:		
Receivables	(52,418)	(14)
Prepaid expense	-	1,224,755
Stores inventories	(64,994)	-
Other current assets	-	102,418
Accounts payable	26,933	(9,110)
Claims liabilities	-	(199,527)
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	<u>\$ (5,713,995)</u>	<u>\$ 3,389,036</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, 2017**

	<u>Student Scholarship Trust Fund</u>	<u>Associated Student Body Agency Fund</u>	<u>Memorandum Total</u>
ASSETS			
Deposits and investments	\$ 660,014	\$ 2,026,568	\$ 2,686,582
Total assets	<u>660,014</u>	<u>2,026,568</u>	<u>2,686,582</u>
LIABILITIES			
Due to student groups	\$ -	\$ 2,026,568	\$ 2,026,568
Total Liabilities	<u>-</u>	<u>2,026,568</u>	<u>2,026,568</u>
NET POSITION			
Restricted	<u>\$ 660,014</u>	<u>\$ -</u>	<u>\$ 660,014</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, 2017**

	Student Scholarship Trust Fund
ADDITIONS	
Investment income	\$ 85,169
Total Additions	<u>85,169</u>
DEDUCTIONS	
Operating expenditures	\$ -
Scholarships awarded	51,618
Total Deductions	<u>51,618</u>
Change in Net Position	33,551
Net Position - Beginning	626,463
Net Position - Ending	<u><u>\$ 660,014</u></u>

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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, 2017

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, 2017

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).

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.).

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 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 fund is 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.

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 remove the double counting of internal activities.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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, 2017, 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 to match the benefiting period.

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, 2017

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 the California Public Employees' Retirement System, 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 the California State Teachers' Retirement System, 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, 2017

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, 2017

Fund Balances - Governmental Funds

As of June 30, 2017, 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. For a district this size, the State recommends available reserve of three percent.

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, 2017

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, 2017

Property Tax

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

New Accounting Pronouncements Effective This Fiscal Year

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. See Note 17 for impact on the financial statements of the District.

GASB Statement No. 82 - 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 District has implemented the provisions of this Statement as of June 30, 2017, 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.

New Accounting Pronouncements Effective in Future Fiscal Years

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the Other Post-Employment Benefits (OPEB) provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The District has not determined the effect of the Statement.

GASB Statement No 81 - 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. The District has not determined the effect of the Statement.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government’s ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The District has not determined the effect of the Statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The District has not determined the effect of the Statement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the Statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the Statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The District has not determined the effect of the Statement.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 393,331,401
Proprietary funds	15,452,773
Fiduciary funds	2,686,582
Total Deposits and Investments	<u>\$ 411,470,756</u>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 4,242,425
Cash in revolving	2,600
Investments	407,225,731
Total Deposits and Investments	<u>\$ 411,470,756</u>

Policies and Practices

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

Investment in 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	Fair Value	Average Maturity in Years
Mutual Funds	\$ 654,282	0.00
Santa Clara County Investment Pool	406,057,166	1.45
Certificate of Deposits	514,283	0.93
Total	\$ 407,225,731	

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments are not rated as of June 30, 2017.

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. As of June 30, 2017, District bank balances of \$2,700,914 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.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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.

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, 2017:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Mutual Funds	\$ 654,282	\$ 654,282	\$ -	\$ -	\$ -
Santa Clara County Investment Pool	406,057,166	-	-	-	406,057,166
Certificate of Deposits	514,283	514,283	-	-	-
Total	<u>\$ 407,225,731</u>	<u>\$ 1,168,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406,057,166</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund
Federal Government				
Categorical Aid	\$ 2,964,773	\$ -	\$ -	\$ -
State Government				
Categorical Aid	1,871,415	-	-	-
Lottery	2,169,075	-	-	-
Local Government				
Interest	168,626	522,772	30,394	103,663
Other Local	1,678,596	690	-	-
Total	<u>\$ 8,852,485</u>	<u>\$ 523,462</u>	<u>\$ 30,394</u>	<u>\$ 103,663</u>

	Non-Major Governmental Funds	Total Governmental Funds	Enterprise Fund	Internal Service Fund
Federal Government				
Categorical Aid	\$ 583,908	\$ 3,548,681	\$ 576,350	\$ -
State Government				
Categorical Aid	52,065	1,923,480	38,294	-
Lottery	-	2,169,075	-	-
Local Government				
Interest	66,674	892,129	-	-
Other Local	409,764	2,089,050	89,913	14
Total	<u>\$ 1,112,411</u>	<u>\$ 10,622,415</u>	<u>\$ 704,557</u>	<u>\$ 14</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 25,442,454	\$ -	\$ -	\$ 25,442,454
Construction in progress	58,581,828	61,719,736	21,313,211	98,988,353
Total Capital Assets Not Being Depreciated	<u>84,024,282</u>	<u>61,719,736</u>	<u>21,313,211</u>	<u>124,430,807</u>
Capital Assets Being Depreciated:				
Buildings and building improvement	668,354,293	27,312,294	789,964	694,876,623
Site improvement	89,433,727	280,664	-	89,714,391
Equipment	33,980,875	383,061	8,084,963	26,278,973
Total Capital Assets Being Depreciated	<u>791,768,895</u>	<u>27,976,019</u>	<u>8,874,927</u>	<u>810,869,987</u>
Total Capital Assets	<u>875,793,177</u>	<u>89,695,755</u>	<u>30,188,138</u>	<u>935,300,794</u>
Less Accumulated Depreciation:				
Buildings and building improvement	183,238,507	18,723,252	789,964	201,171,795
Site improvement	20,976,734	3,552,412	-	24,529,146
Equipment	24,628,146	2,487,460	8,084,963	19,030,643
Total Accumulated Depreciation	<u>228,843,387</u>	<u>24,763,124</u>	<u>8,874,927</u>	<u>244,731,584</u>
Governmental Activities Capital Assets, Net	<u>\$ 646,949,790</u>	<u>\$ 64,932,631</u>	<u>\$ 21,313,211</u>	<u>\$ 690,569,210</u>

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

Governmental Activities	
Instruction	\$ 16,385,103
Supervision of instruction	1,679,947
Instructional library and technology	96,017
School site administration	1,631,257
Home-to-school transportation	673,777
All other pupil services	2,643,069
Ancillary services	266,159
Community services	3,345
Data processing services	276,231
All other administration	1,108,219
Total Depreciation Expenses, Governmental Activities	<u>\$ 24,763,124</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2017, are as follows:

<u>Due To</u>	<u>Due From General Fund</u>
Non-Major Governmental Funds	\$ 841,793
Enterprise Fund	3,060,602
Total	<u>\$ 3,902,395</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, 2017, consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>			<u>Total</u>
	<u>Non-Major Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	
General Fund	<u>\$ 214,223</u>	<u>\$ 672,172</u>	<u>\$ 100,000</u>	<u>\$ 986,395</u>

The General Fund transferred to Child Development Fund for contribution.	\$ 214,223
The General Fund transferred to Cafeteria Fund for contribution.	672,172
The General Fund transferred to Self Insurance Fund for contribution.	100,000
	<u>\$ 986,395</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, 2017

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 \$8,587,358 includes the effect of deferring the recognition of loss from advance refunding. The \$10,091,662 balance of the deferred charge on refunding at June 30, 2017 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, 2017 is as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Deferred charge on refunding	<u>\$ 13,786,393</u>	<u>\$ -</u>	<u>\$ 3,694,731</u>	<u>\$ 10,091,662</u>

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Vendor payables	\$ 7,732,703	\$ 7,727,289	\$ 313,473	\$ 1,315,454	\$ 17,088,919
State apportionment	80,237	-	-	-	80,237
State categorical aid	826,490	-	-	-	826,490
State in-lieu tax	2,592,282	-	-	-	2,592,282
Salaries and benefits	6,128,086	1,951	-	158,869	6,288,906
Total	<u>\$ 17,359,798</u>	<u>\$ 7,729,240</u>	<u>\$ 313,473</u>	<u>\$ 1,474,323</u>	<u>\$ 26,876,834</u>

	Enterprise Fund	Internal Service Fund
Vendor payables	\$ 53,635	\$ 18,642
Total	<u>\$ 53,635</u>	<u>\$ 18,642</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 73,754	\$ -	\$ -	\$ 73,754
State categorical aid	7,085,993	9,077,737	140,110	16,303,840
Other local	1,529,161	-	29,819	1,558,980
Total	<u>\$ 8,688,908</u>	<u>\$ 9,077,737</u>	<u>\$ 169,929</u>	<u>\$ 17,936,574</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
General					
obligation bonds	\$ 756,524,725	\$ 153,118,184	\$ 32,828,665	\$ 876,814,244	\$ 52,644,322
Bond premium	51,038,107	13,032,569	3,895,786	60,174,890	4,681,383
OPEB revenue					
bonds	29,955,000	-	515,000	29,440,000	580,000
Supplemental					
retirement	-	3,386,500	-	3,386,500	667,300
Accrued					
vacation	2,834,129	-	459,952	2,374,177	-
Subtotal	<u>840,351,961</u>	<u>169,537,253</u>	<u>37,699,403</u>	<u>972,189,811</u>	<u>58,573,005</u>
Pension liabilities	217,168,630	18,618,407	-	235,787,037	-
Total	<u>\$ 1,057,520,591</u>	<u>\$ 188,155,660</u>	<u>\$ 37,699,403</u>	<u>\$ 1,207,976,848</u>	<u>\$ 58,573,005</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, 2017

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	Accreted/ Issued	Defeased/ Redeemed	Outstanding June 30, 2017
Current Interest Bond							
2003 Refunding	2027	2.0%-5.3%	\$ 97,160,000	\$ 61,960,000	\$ -	\$ 2,990,000	\$ 58,970,000
2006 Refunding	2025	4.0%-5.25%	42,665,000	37,640,000	-	2,240,000	35,400,000
2007 Refunding	2020	4.0%-5.0%	11,545,000	5,215,000	-	1,355,000	3,860,000
2008 Series A	2039	4.0%-5.0%	50,000,000	2,260,000	-	1,100,000	1,160,000
2002 Series H	2034	5.1%-6.0%	18,000,000	1,425,000	-	425,000	1,000,000
2008 Series B	2040	3.0%-5.0%	100,000,000	8,600,000	-	1,990,000	6,610,000
2010 Refunding	2028	2.0%-5.0%	46,160,000	36,465,000	-	2,450,000	34,015,000
2008 Series C	2026	4.0%	20,026,088	14,444,633	-	1,258,665	13,185,968
2008 Series D	2043	2.0%-5.0%	100,000,000	99,670,000	-	760,000	98,910,000
2008 Series E	2032	3.5%-5.0%	78,970,000	-	78,970,000	-	78,970,000
2011 Refunding	2022	3.8%-4.6%	20,135,000	14,345,000	-	2,405,000	11,940,000
2012 Refunding	2029	2.0%-5.0%	36,735,000	31,585,000	-	1,840,000	29,745,000
2013 Refunding	2030	3.0%-5.0%	88,145,000	86,880,000	-	715,000	86,165,000
2014 Refunding	2036	2.0%-5.0%	41,400,000	39,315,000	-	1,365,000	37,950,000
2012 Series A	2039	2.0%-5.0%	20,000,000	18,000,000	-	465,000	17,535,000
2012 Series B	2036	4.0%-5.0%	100,000,000	100,000,000	-	2,000,000	98,000,000
2014 Series A	2019	5.0%	16,200,000	16,200,000	-	5,100,000	11,100,000
2015 Refunding	2035	3.0%-5.0%	41,420,000	41,420,000	-	70,000	41,350,000
2016 Refunding A	2033	2.0%-5.0%	16,060,000	16,060,000	-	315,000	15,745,000
2016 Refunding B	2039	2.0%-5.0%	83,665,000	83,665,000	-	1,585,000	82,080,000
2016 Series A	2022	2.0%-4.0%	72,000,000	-	72,000,000	-	72,000,000
Subtotal				<u>715,149,633</u>	<u>150,970,000</u>	<u>30,428,665</u>	<u>835,690,968</u>
Capital Appreciation							
2002 Series E	2020	4.2%-5.1%	29,999,529	10,213,140	561,958	2,400,000	8,375,098
2002 Series G	2032	4.6%-6.9%	19,997,739	31,161,952	1,586,226	-	32,748,178
Subtotal				<u>41,375,092</u>	<u>2,148,184</u>	<u>2,400,000</u>	<u>41,123,276</u>
Total General Obligation Bonds				<u>\$ 756,524,725</u>	<u>\$ 153,118,184</u>	<u>\$ 32,828,665</u>	<u>\$ 876,814,244</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 52,644,322	\$ 36,333,679	\$ 88,978,001
2019	55,268,152	36,882,705	92,150,857
2020	44,340,722	35,185,380	79,526,102
2021	48,754,944	31,388,795	80,143,739
2022	39,768,059	29,504,653	69,272,712
2023-2027	224,386,289	117,404,077	341,790,366
2028-2032	213,734,259	80,750,985	294,485,244
2033-2037	115,705,000	24,413,610	140,118,610
2038-2042	57,395,000	6,477,046	63,872,046
2043	7,300,000	164,250	7,464,250
Subtotal	<u>859,296,747</u>	<u>\$ 398,505,180</u>	<u>\$ 1,257,801,927</u>
Accretion to date	<u>17,517,497</u>		
Total	<u>\$ 876,814,244</u>		

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 June 30, 2016	Redeemed	Bonds Outstanding June 30, 2017
2036	5.18%-5.32%	\$ 32,050,000	\$ 29,955,000	\$ 515,000	\$ 29,440,000

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Debt Service Requirements to Maturity

The bonds mature through 2036 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	900,000	1,418,312	2,318,312
2023-2027	6,045,000	6,267,492	12,312,492
2028-2032	9,265,000	4,337,396	13,602,396
2033-2036	10,450,000	1,440,922	11,890,922
Total	<u>\$ 29,440,000</u>	<u>\$ 19,517,582</u>	<u>\$ 48,957,582</u>

Compensated Absences (Vacation)

The long-term portion of compensated absences (vacation) for the District at June 30, 2017, amounted to \$2,374,177.

Supplemental Early Retirement Plan (SERP)

In 2016-2017, 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 mature through 2022 as follows:

Fiscal Year	SERP Payment
2018	\$ 677,300
2019	677,300
2020	677,300
2021	677,300
2022	677,300
Total	<u>\$ 3,386,500</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 11 - UNRESTRICTED NET POSITION AND FUND BALANCES

Unrestricted net position of governmental activities at June 30, 2017, is composed of the following elements:

	Governmental Activities
General Fund unrestricted fund balance	\$ 43,309,688
Adult Education Fund committed fund balance	326,593
Deferred Maintenance Fund committed fund balance	40,006
Special Reserve Fund for Capital Outlay Projects assigned fund balance	1,588
Post-employment benefits contributions	23,315,603
Other post-employment benefit revenue bonds	(29,440,000)
Supplemental retirement	(3,386,500)
Compensated absences	(2,374,177)
Subtotal before GASB Statement No. 68 implementation	<u>31,792,801</u>
Net deferred outflow of resources from pension activities	31,480,550
Net pension liability	<u>(231,551,236)</u>
Total after GASB Statement No. 68 implementation	<u><u>\$ (168,277,885)</u></u>

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EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Governmental Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable						
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ 2,500
Stores inventories	232,487	-	-	-	-	232,487
Prepaid expenditures	-	229,868	-	-	-	229,868
Total Nonspendable	234,987	229,868	-	-	-	464,855
Restricted						
Educational programs	4,688,353	-	-	-	781,072	5,469,425
Capital projects	-	227,511,036	-	-	21,596,467	249,107,503
Debt services	-	-	-	64,178,694	-	64,178,694
Total Restricted	4,688,353	227,511,036	-	64,178,694	22,377,539	318,755,622
Committed						
Adult education program	-	-	-	-	326,593	326,593
Deferred maintenance	-	-	-	-	40,006	40,006
Total Committed	-	-	-	-	366,599	366,599
Assigned						
Capital projects	-	-	1,588	-	-	1,588
Total Assigned	-	-	1,588	-	-	1,588
Unassigned						
Reserve for economic uncertainties	8,344,108	-	-	-	-	8,344,108
Remaining unassigned	34,730,593	-	-	-	-	34,730,593
Total Unassigned	43,074,701	-	-	-	-	43,074,701
Total	\$ 47,998,041	\$ 227,740,904	\$ 1,588	\$ 64,178,694	\$ 22,744,138	\$ 362,663,365

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Plan Description

The Self-Insured Schools of California (SISC) administers the East Side Union High School District's Post-employment Benefits Plan (Plan) – a single-employer defined benefit plan that is used to provide other post-employment benefits (OPEB) other than pensions for all permanent full-time employees of the District. Financial information for SISC can be found on the SISC website at <https://www.sisc.kern.org/>.

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 \$4,512,619.

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	\$ (4,310,980)
Interest on OPEB asset	1,202,224
Adjustment to annual required contribution	(2,694,924)
Annual OPEB cost	<u>(5,803,680)</u>
Contributions made	4,512,619
Decrease in net OPEB asset	<u>(1,291,061)</u>
Net OPEB asset, beginning of year	24,606,664
Net OPEB asset, end of year	<u><u>\$ 23,315,603</u></u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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
2017	\$ 4,512,619	\$ 5,803,680	78%	\$ 23,315,603
2016	4,637,461	4,624,362	100%	24,606,664
2015	4,417,982	4,536,644	131%	24,593,565

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 Payrol ([b - a] / c)
July 1, 2016	\$ 24,070,303	\$ 53,545,090	\$ 29,474,787	44.95%	\$ 159,299,321	19%

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, 2016 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, 2016, was 17 years on a closed basis. As of June 30, 2017, the Retiree Benefit Trust Fund held net position in the amount of \$22,605,009, 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, 2017

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, 2017, 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 2017, 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, 2015 to June 30, 2017:

	<u>Health Benefits</u>
Liability Balance, July 1, 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
Claims and changes in estimates	9,487,361
Claim payments	<u>(9,686,888)</u>
Liability Balance, June 30, 2017	1,363,387
Assets available to pay claims at June 30, 2017	<u><u>\$ 13,723,211</u></u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 178,546,485	\$ 45,077,656	\$ 29,182,449	\$ 17,249,389
CalPERS	57,240,552	18,550,562	1,719,738	5,821,273
Total	\$ 235,787,037	\$ 63,628,218	\$ 30,902,187	\$ 23,070,662

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, 2017

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, 2017 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	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

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, 2017, are presented above and the District's total contributions were \$15,418,734.

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

At June 30, 2017, 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	\$ 178,546,485
State's proportionate share of the net pension liability associated with the District	101,643,329
Total net pension liability, including State share	<u>\$ 280,189,814</u>

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.22075 percent and 0.25993 percent, resulting in a net increase in the proportionate share of 0.0392 percent.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

For the year ended June 30, 2017, the District recognized pension expense of \$17,249,389. In addition, the District recognized pension expense and revenue of \$9,824,898 for support provided by the State. At June 30, 2017, 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	\$ 15,418,734	\$ -
Net change in proportionate share of net pension liability	15,464,564	24,827,010
Difference between projected and actual earnings on pension plan investments	14,194,358	-
Differences between expected and actual experience in the measurement of the total pension liability on plan investments	-	4,355,439
Total	<u>\$ 45,077,656</u>	<u>\$ 29,182,449</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 of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 309,673
2019	309,673
2020	8,251,230
2021	5,323,782
Total	<u>\$ 14,194,358</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflow/(Inflows) of Resources
2018	\$ (1,839,813)
2019	(1,839,813)
2020	(1,839,813)
2021	(1,839,813)
2022	(1,839,815)
Thereafter	(4,518,818)
Total	<u>\$ (13,717,885)</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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, 2017

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 log-normally 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%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%
	100%	

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%)	\$ 256,968,659
Current discount rate (7.6%)	\$ 178,546,485
1% increase (8.6%)	\$ 113,415,793

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. 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, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7%	6%
Required employer contribution rate	13.888%	13.888%

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, are presented above and the total District contributions were \$5,177,134.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$57,240,552. The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively was 0.28983 percent and 0.28613 percent, resulting in a net increase in the proportionate share of 0.0037 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$5,821,273. At June 30, 2017, 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	\$ 5,177,134	\$ -
Net change in proportionate share of net pension liability	2,029,643	-
Difference between projected and actual earnings on pension plan investments	8,881,893	-
Differences between expected and actual experience in the measurement of the total pension liability	2,461,892	-
Changes of assumptions		1,719,738
Total	<u>\$ 18,550,562</u>	<u>\$ 1,719,738</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 1,245,803
2019	1,245,804
2020	4,072,190
2021	2,318,096
Total	<u>\$ 8,881,893</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 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflow/(Inflows) of Resources
2018	\$ 1,225,948
2019	1,147,602
2020	398,247
Total	<u>\$ 2,771,797</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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, 2017

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:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and forestland	2%	5.09%
Cash/liquidity	1%	-1.05%
	100%	

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:

Discount Rate	Net Pension Liability
1% decrease (6.65%)	\$ 85,403,222
Current discount rate (7.65%)	\$ 57,240,552
1% increase (8.65%)	\$ 33,789,587

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Public Agency Retirement System (PARS) (Defined 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 \$9,824,898, \$9,579,462, and \$7,181,114 (8.828, 7.126, and 5.541 percent of annual payroll) for the years ending June 30, 2017, 2016 and 2015, 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, 2017, the District made payments of \$1,483,901 and \$2,824,697 to Northern 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 Santa Clara County Office of Education.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017.

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, 2017.

Construction Commitments

As of June 30, 2017, the District had construction commitments in the amount of \$71,271,893.

NOTE 17 – TAX ABATEMENTS

As of June 30, 2017, the County of Santa Clara provides a tax abatement program through California Land Conservation Act of 1965, commonly referred to as the Williamson Act.

The Williamson Act affects taxing entity's share of the 1% ad valorem tax (property tax). The Williamson Act enables the County to enter into agreement with private landowners for restricting specific parcels of land to agricultural or related open space use for a ten year period. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value.

As a result of the Williamson Act, East Side Union High School District's property tax revenues were reduced by \$131,790 for the year ended June 30, 2017.

NOTE 18 – RESTATEMENT OF PRIOR YEAR NET POSITION

The effect of allocation of aggregated net pension liability, and deferred outflows and inflows of resources related to pensions between governmental activities and business-type activities on the 2016-17 fiscal year is as follows.

Statement of Net Position	Governmental Activities	Business-Type Activities	Total
Net Position - Beginning, June 30, 2016	\$ (87,692,174)	\$ -	\$ (87,692,174)
Restatement related to pension activities	2,942,654	(2,942,654)	-
Net Position - Beginning as Restated, June 30, 2016	<u>\$ (84,749,520)</u>	<u>\$ (2,942,654)</u>	<u>\$ (87,692,174)</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST SIDE UNION HIGH SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Favorable
	Original	Final		(Unfavorable)
				Variances
				Final
				to Actual
REVENUES				
Local control funding formula	\$ 219,239,288	\$ 219,707,426	\$ 219,668,650	\$ (38,776)
Federal sources	12,521,635	12,393,248	11,548,811	(844,437)
Other State sources	31,070,219	30,038,506	27,734,077	(2,304,429)
Other local sources	4,161,155	9,018,544	9,640,262	621,718
Total Revenues	<u>266,992,297</u>	<u>271,157,724</u>	<u>268,591,800</u>	<u>(2,565,924)</u>
EXPENDITURES				
Current				
Certificated salaries	125,879,248	123,779,796	122,401,672	1,378,124
Classified salaries	32,096,850	31,988,892	31,459,164	529,728
Employee benefits	74,317,038	73,413,157	72,231,193	1,181,964
Books and supplies	8,144,576	7,971,631	8,369,375	(397,744)
Services and operating expenditures	28,207,138	28,400,418	26,911,359	1,489,059
Other outgo	2,822,839	6,525,002	3,946,422	2,578,580
Capital outlay	2,041,717	1,867,381	4,135,626	(2,268,245)
Debt service - principal	515,000	515,000	515,000	-
Debt service - interest	1,588,993	1,588,993	1,588,993	-
Total Expenditures	<u>275,613,399</u>	<u>276,050,270</u>	<u>271,558,804</u>	<u>4,491,466</u>
Excess of Expenditures				
Over Revenues	<u>(8,621,102)</u>	<u>(4,892,546)</u>	<u>(2,967,004)</u>	<u>1,925,542</u>
Other Financing Uses				
Transfers out	<u>(1,230,034)</u>	<u>(1,096,337)</u>	<u>(1,486,395)</u>	<u>(390,058)</u>
Net Financing Uses	<u>(1,230,034)</u>	<u>(1,096,337)</u>	<u>(1,486,395)</u>	<u>(390,058)</u>
NET DECREASE IN FUND BALANCE	<u>(9,851,136)</u>	<u>(5,988,883)</u>	<u>(4,453,399)</u>	<u>1,535,484</u>
Fund Balance - Beginning	<u>44,107,332</u>	<u>44,107,332</u>	<u>44,107,332</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 34,256,196</u>	<u>\$ 38,118,449</u>	<u>39,653,933</u>	<u>\$ 1,535,484</u>
Special Reserve - Other				
Than Capital Outlay Projects			<u>8,344,108</u>	
Fund Balance - Ending - GAAP			<u>\$ 47,998,041</u>	

See accompanying note to required supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances
	Original	Final		Final to Actual
REVENUES				
Other State sources	\$ -	\$ -	\$ 2,125,026	\$ 2,125,026
Other local sources	10	13	13	-
Total Revenues	10	13	2,125,039	2,125,026
EXPENDITURES				
Current				
Classified salaries	-	-	2,009	(2,009)
Employee benefits	-	-	194	(194)
Capital outlay	-	-	2,122,823	(2,122,823)
Total Expenditures	-	-	2,125,026	(2,125,026)
Excess of Revenues Over Expenditures	10	13	13	-
NET INCREASE IN FUND BALANCE	10	13	13	-
Fund Balance - Beginning	1,575	1,575	1,575	-
Fund Balance - Ending	\$ 1,585	\$ 1,588	\$ 1,588	\$ -

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, 2017**

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 Payrol ([b - a] / c)
July 1, 2016	\$ 24,070,303	\$ 53,545,090	\$ 29,474,787	44.95%	\$ 159,299,321	19%
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%

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See accompanying note to required supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

SCCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

MEASUREMENT DATE	June 30, 2016	June 30, 2015	June 30, 2014
CalSTRS			
District's proportion of the net pension liability	0.22075%	0.25993%	0.23020%
District's proportionate share of the net pension liability	\$ 178,546,485	\$ 174,993,327	\$ 134,521,149
State's proportionate share of the net pension liability associated with the District	101,643,329	92,552,179	81,229,677
Total	\$ 280,189,814	\$ 267,545,506	\$ 215,750,826
District's covered - payroll	\$ 119,337,685	\$ 111,165,728	\$ 102,842,026
District's proportionate share of the net pension liability as a percentage of its covered - payroll	149.61%	157.42%	130.80%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.28983%	0.28613%	0.26448%
District's proportionate share of the net pension liability	\$ 57,240,552	\$ 42,175,303	\$ 30,024,754
District's covered - payroll	\$ 33,120,771	\$ 29,702,119	\$ 27,540,541
District's proportionate share of the net pension liability as a percentage of its covered - payroll	172.82%	141.99%	109.02%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

Note: In the future, as data becomes 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, 2017**

FISCAL YEAR ENDED	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
CalSTRS			
Contractually required contribution	\$ 15,418,734	\$ 12,804,206	\$ 9,869,073
Contributions in relation to the contractually required contribution	(15,418,734)	(12,804,206)	(9,869,073)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 122,579,597</u>	<u>\$ 119,337,685</u>	<u>\$ 111,165,728</u>
Contributions as a percentage of covered - payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 5,177,134	\$ 3,814,940	\$ 3,496,235
Contributions in relation to the contractually required contribution	(5,177,134)	(3,814,940)	(3,496,235)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 34,903,036</u>	<u>\$ 33,120,771</u>	<u>\$ 29,702,119</u>
Contributions as a percentage of covered - payroll	<u>14.83%</u>	<u>11.52%</u>	<u>11.77%</u>

Note: In the future, as data becomes 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, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

This schedules present 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 of the General Fund and the Special Reserve Fund for Capital Outlay Projects.

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.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations. CalPERS discount rate was changed from 7.50% to 7.65% in 2016.

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.

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SUPPLEMENTARY INFORMATION

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Grants:			
Promoting Readiness of Minors in Supplemental Security	84.418P	1	\$ 241,816
Passed-Through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	4,193,310
Title I, Migrant Education:			
Title I, Part C, Migrant Education - Regular Program	84.011	14326	\$ 168,130
Title I, Part C, Migrant Education - Summer Program	84.011	10005	<u>176,507</u>
Total Title I, Migration Education			344,637
Title II, Part A, Teacher Quality	84.367	14341	751,207
Title III, Limited English Proficiency	84.365	14346	344,447
Title III, Immigrant Education Program	84.365	15146	<u>(18,146)</u>
Total English Language Acquisition State Grants			326,301
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,637,448
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	<u>276,642</u>
Total Special Education Cluster			3,914,090
Carl Perkins Act:			
Secondary, Section 131	84.048	14894	477,276
Adult, Section 132	84.048	14893	<u>11,690</u>
Total Carl Perkins Grant			488,966
Adult Education Act:			
Adult Secondary Education	84.002	13978	331,803
Adult Education: English Literacy and Civics Education	84.002A	14109	4,562
Adult Basic Education and English as Second Language	84.002A	14508	<u>582,100</u>
Total Adult Education Cluster			918,465
Total Passed-Through CDE			<u>10,936,976</u>
Total U.S. Department of Education			<u>11,178,792</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, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through California Department of Education:			
Child Development Act:			
Head Start	93.600	10016	200,000
Medi-Cal Billing Option	93.778	10013	199,277
Federal Child Care, Center-Based	93.575	15136	328,013
Race to the Top (Early Learning Challenge)	84.412	15181	49,128
Total U.S. Department of Health and Human Services			<u>776,418</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through California Department of Education:			
Child Nutrition Act:			
Needy Breakfast	10.553	13390	1,177,395
National School Lunch	10.555	13523	2,852,239
Meal Supplement	10.556	13568	10,273
Commodity Supplemental Food Program ²	10.555	13534	361,370
Total Child Nutrition Cluster			4,401,277
Child and Adult Care Food Program	10.558	13393	578,710
Total U.S. Department of Agriculture			<u>4,979,987</u>
U.S. DEPARTMENT OF REHABILITATION			
Passed-Through California Department of Education:			
Workability II, Transition Partnership	84.126	10006	346,582
U.S. DEPARTMENT OF DEFENSE			
Direct Grants:			
Junior Reserve Officer Training Corp (JROTC)	12.357	¹	569,817
Total Expenditures of Federal Awards			<u>\$ 17,851,596</u>

¹ These grants are direct grants. Pass-Through entity identifying numbers are not available.

² 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, 2017

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>
Frank Biehl	President	2018
J. Manual Herrera	Vice President	2018
Pattie Cortese	Clerk	2020
Lan Nguyen	Member	2020
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, 2017**

	Final Report	
	Second Period Report	Annual Report
9th Through 12th		
Regular ADA	21,948.45	21,830.93
Extended Year Special Education	42.95	42.95
Special Education, Nonpublic, Nonsectarian Schools	57.87	63.12
Extended Year Special Education, Nonpublic, Nonsectarian Schools	5.58	5.58
Total ADA	<u>22,054.85</u>	<u>21,942.58</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, 2017

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 9	64,800	64,830	180	N/A	Complied
Grade 10	64,800	64,830	180	N/A	Complied
Grade 11	64,800	64,830	180	N/A	Complied
Grade 12	64,800	64,830	180	N/A	Complied

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See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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
	<u> </u>	<u> </u>
FUND BALANCE		
Balance, June 30, 2017, Unaudited Actuals	\$ 39,653,933	\$ 8,344,108
As required by GASB Statement No. 54, the District consolidated Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects into General Fund	8,344,108	(8,344,108)
Balance, June 30, 2017, Audited Financial Statements	<u>\$ 47,998,041</u>	<u>\$ -</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, 2017**

	Budgeted 2018 ¹	Actual 2017	Actual 2016	Actual 2015
GENERAL FUND ³				
Revenues	\$ 256,251,200	\$ 258,766,902	\$ 257,564,408	\$ 236,201,709
Other sources	6,720,251	9,824,898	9,579,462	7,181,114
Total Revenues and Other Sources	262,971,451	268,591,800	267,143,870	243,382,823
Expenditures	277,764,718	271,558,804	256,881,351	241,841,002
Other uses and transfers out	1,019,626	1,486,395	447,672	599,928
Total Expenditures and Other Uses	278,784,344	273,045,199	257,329,023	242,440,930
Changes in Fund Balance	\$ (15,812,893)	\$ (4,453,399)	\$ 9,814,847	\$ 941,893
Ending Fund Balance	\$ 23,841,040	\$ 39,653,933	\$ 44,107,332	\$ 34,292,485
Available Reserves ²	\$ 27,261,808	\$ 43,074,701	\$ 48,220,981	\$ 38,575,811
Available Reserves as a percentage of total Outgo	9.78%	15.78%	18.74%	15.91%
Long-Term Obligations	\$ 1,149,403,843	\$ 1,207,976,848	\$ 1,057,520,591	\$ 1,017,020,564
Average Daily Attendance At P-2	21,981	22,055	22,072	22,479

The General Fund balance has increased by \$5,361,448 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$15,812,893. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District has adopted a policy to reserve at least six percent.

The District has incurred operating surpluses in two of the past three years, but anticipates operating deficit during the 2017-2018 fiscal year. Total long-term obligations have increased by \$190,956,284 over the past two years. The increase in long-term obligations is mainly due to the \$153.1 million new general obligation bond issuance during 2016-2017.

Average daily attendance has decreased by 424 over the past two years. A decrease of 74 ADA is anticipated during fiscal year 2017-2018.

¹ Adopted Budget 2018 is included for analytical purposes only and has not been subjected to an audit.

² 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.

³ 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, 2017**

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, 2017**

	Adult Education Fund	Child Development Fund
ASSETS		
Deposits and investments	\$ 803,574	\$ 717,847
Receivables	595,007	448,670
Total Assets	\$ 1,398,581	\$ 1,166,517
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 261,097	\$ 184,614
Due to other funds	-	841,793
Unearned revenue	29,819	140,110
Total Liabilities	290,916	1,166,517
Fund Balances:		
Restricted	781,072	-
Committed	326,593	-
Total Fund Balances	1,107,665	-
Total Liabilities and Fund Balances	\$ 1,398,581	\$ 1,166,517

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See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ 39,894	\$ 8,754,261	\$ 13,802,196	\$ 24,117,772
112	29,311	39,311	1,112,411
<u>\$ 40,006</u>	<u>\$ 8,783,572</u>	<u>\$ 13,841,507</u>	<u>\$ 25,230,183</u>
\$ -	\$ 773,883	\$ 254,729	\$ 1,474,323
-	-	-	841,793
-	-	-	169,929
<u>-</u>	<u>773,883</u>	<u>254,729</u>	<u>2,486,045</u>
-	8,009,689	13,586,778	22,377,539
40,006	-	-	366,599
<u>40,006</u>	<u>8,009,689</u>	<u>13,586,778</u>	<u>22,744,138</u>
<u>\$ 40,006</u>	<u>\$ 8,783,572</u>	<u>\$ 13,841,507</u>	<u>\$ 25,230,183</u>

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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, 2017**

	Adult Education Fund	Child Development Fund
REVENUES		
Federal sources	\$ 918,465	\$ 577,141
Other State sources	6,817,789	1,183,348
Other local sources	83,556	477,068
Total Revenues	<u>7,819,810</u>	<u>2,237,557</u>
EXPENDITURES		
Current		
Instruction	3,648,570	1,981,033
Instruction-related activities:		
Supervision of instruction	622,837	36,770
Instructional library and technology	41,123	-
School site administration	2,117,930	351,368
Pupil services:		
All other pupil services	147,513	24,722
Administration:		
All other administration	334,780	-
Maintenance and operations	403,235	57,887
Facility acquisition and construction	345,247	-
Total Expenditures	<u>7,661,235</u>	<u>2,451,780</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>158,575</u>	<u>(214,223)</u>
Other Financing Sources		
Transfers in	-	214,223
Net Financing Sources	<u>-</u>	<u>214,223</u>
NET CHANGE IN FUND BALANCES	158,575	-
Fund Balance - Beginning	949,090	-
Fund Balance - Ending	<u>\$ 1,107,665</u>	<u>\$ -</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 1,495,606
-	-	-	8,001,137
410	1,772,199	161,208	2,494,441
410	1,772,199	161,208	11,991,184
-	-	-	5,629,603
-	-	-	659,607
-	-	-	41,123
-	-	-	2,469,298
-	-	-	172,235
-	-	-	334,780
2,176	74,247	-	537,545
-	3,686,835	430,004	4,462,086
2,176	3,761,082	430,004	14,306,277
(1,766)	(1,988,883)	(268,796)	(2,315,093)
-	-	-	214,223
-	-	-	214,223
(1,766)	(1,988,883)	(268,796)	(2,100,870)
41,772	9,998,572	13,855,574	24,845,008
\$ 40,006	\$ 8,009,689	\$ 13,586,778	\$ 22,744,138

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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 a 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		\$ 13,044,417
Total Federal resources reported on Business-type Activities		4,618,618
Federal subsidy for advance placement testing fees not reported on the SEFA	not available	(172,809)
Commodities not recorded on the financial statements	10.555	361,370
Total Schedule of Expenditures of Federal Awards		<u>\$ 17,851,596</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, 2017

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the 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, 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



**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 (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated [REDACTED], 2017.

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.



**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 (District) major Federal programs for the year ended June 30, 2017. 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, 2017.



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 *2016-2017 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, 2017.

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 *2016-2017 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

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, 2017.

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:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
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
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
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 and Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
CHARTER SCHOOLS	
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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

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>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<u>None Reported</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:	

CFDA Number(s)	Name of Federal Program or Cluster
84.367	Title II, Part A, Teacher Quality
84.027, 84.027A	Special Education Cluster
84.002, 84.002A	Adult 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, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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

**2002 MEASURE G FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

2002 MEASURE G FUND TABLE OF CONTENTS JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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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, 2017, 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, 2017, 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, 2017, 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 _____, 2017, 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
_____, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2002 MEASURE G FUND
BALANCE SHEET
JUNE 30, 2017**

ASSETS

Deposits and investments	\$ 11,435,914
Interest receivable	33,673
Prepaid expenses	2,611
Total Assets	<u>\$ 11,472,198</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 231,394
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FUND BALANCE

Restricted for capital projects	11,240,804
Total Liabilities and Fund Balance	<u>\$ 11,472,198</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, 2017**

REVENUES

Investment income	\$	140,818
All other local income		125
Total Revenues		<u>140,943</u>

EXPENDITURES

Current Expenditures		
Classified salaries		165,935
Employees benefits		79,691
Supplies		119,500
Services and other operating expenses		184,592
Capital Outlay		<u>4,661,306</u>
Total Expenditures		<u>5,211,024</u>

NET CHANGE IN FUND BALANCE		(5,070,081)
FUND BALANCE - BEGINNING		<u>16,310,885</u>
FUND BALANCE - ENDING	\$	<u>11,240,804</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 NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 summarizes the 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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Balance - Governmental Funds

As of June 30, 2017, 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.

NOTE 2 - INVESTMENTS

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>\$ 11,435,914</u>	<u>\$ 11,409,426</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 \$11,409,426 with an average maturity of 528 days.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level.

Investment in the county treasury investment pool is not measured using the input levels above because the participant'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. Accordingly, the Fund's investment in the Santa Clara county pool is uncategorized.

EAST SIDE UNION HIGH SCHOOL DISTRICT

2002 MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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			Bonds Outstanding June 30, 2017
				Outstanding July 1, 2016	Accreted/ Issued	Defeased/ Redeemed	
2002 E	2020	4.2%-5.1%	\$ 29,999,529	\$ 10,213,140	\$ 561,958	\$ 2,400,000	\$ 8,375,098
2002 G	2032	4.6%-6.9%	19,997,739	31,161,952	1,586,226	-	32,748,178
2002 H	2034	5.1%-6.0%	18,000,000	1,425,000	-	425,000	1,000,000
2003 Ref	2027	2.0%-5.3%	97,160,000	61,960,000	-	2,990,000	58,970,000
2010 Ref	2028	2.0%-5.0%	46,160,000	36,465,000	-	2,450,000	34,015,000
2012 Ref	2029	2.0%-5.0%	36,735,000	31,585,000	-	1,840,000	29,745,000
2013 Ref	2030	3.0%-5.0%	88,145,000	86,880,000	-	715,000	86,165,000
2014 Ref	2036	2.0%-5.0%	41,400,000	39,315,000	-	1,365,000	37,950,000
2016 Ref	2034	2.0%-5.0%	16,060,000	16,060,000	-	315,000	15,745,000
Total				<u>\$ 315,065,092</u>	<u>\$ 2,148,184</u>	<u>\$ 12,500,000</u>	<u>\$ 304,713,276</u>

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
2018	\$ 11,328,686	\$ 13,307,938	\$ 24,636,624
2019	12,532,001	13,814,921	26,346,922
2020	12,424,113	13,808,085	26,232,198
2021	15,319,136	11,103,692	26,422,828
2022	21,723,962	10,539,146	32,263,108
2023 - 2027	120,134,237	37,796,077	157,930,314
2028 - 2032	77,084,312	22,534,640	99,618,952
2033 - 2036	16,649,332	8,835,756	25,485,088
Sub Total	<u>287,195,779</u>	<u>\$ 131,740,255</u>	<u>\$ 418,936,034</u>
Accreted Interest	17,517,497		
Total	<u>\$ 304,713,276</u>		

EAST SIDE UNION HIGH SCHOOL DISTRICT

2002 MEASURE G FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017, the District had construction commitments which are partially funded by the 2002 Measure G Fund as follows:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Andrew Hill - Mechanical and Electrical Upgrades	\$ 59,444	6/30/2018
Andrew Hill - Door Replacement	10,550	6/30/2018
Andrew Hill - Interior Flooring	22,607	6/30/2018
District Program Cost and Program Management Services Cost	108,125	6/30/2018
Foothill - Hooper Hall Modernization	76,417	6/30/2018
Foothill - Mechanical and Electrical Upgrades	27,820	6/30/2018
Independence - District Wide Roofing	3,405	6/30/2018
Independence - Interior Flooring	2,560	6/30/2018
Independence - Mechanical and Electrical Upgrades	192,432	6/30/2018
Independence - Pole Vault Replace Pad	23,900	6/30/2018
James Lick - Mechanical and Electrical Upgrades	35,739	6/30/2018
James Lick - Door Replacement	3,517	6/30/2018
Mount Pleasant - Door Replacement	1,005	6/30/2018
Oak Grove - Mechanical and Electrical Upgrades	6,827	6/30/2018
Oak Grove - Renovate Building H1/H2 Restrooms	357,966	6/30/2018
Piedmont Hills - Mechanical and Electrical Upgrades	44,419	6/30/2018
Piedmont Hills - Door Replacement	10,550	6/30/2018
Santa Teresa - Mechanical and Electrical Upgrades	6,827	6/30/2018
Silver Creek - Door Replacement	11,555	6/30/2018
Silver Creek - Mechanical and Electrical Upgrades	17,796	6/30/2018
W.C. Overfelt - Door Replacement	13,062	6/30/2018
W.C. Overfelt- Mechanical and Electrical Upgrades	6,228	6/30/2018
Yerba Buena - Pool Modernization	3,170	6/30/2018
	<u>\$ 1,045,921</u>	

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2002 MEASURE G FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017.

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INDEPENDENT AUDITOR'S REPORT

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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 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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated _____, 2017.

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
_____, 2017

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SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2002 MEASURE G FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

2002 MEASURE G FUND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2017

None Reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2008 MEASURE E FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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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, 2017, 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, 2017, 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, 2017, 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 _____, 2017, 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
_____, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2008 MEASURE E FUND
BALANCE SHEET
JUNE 30, 2017**

ASSETS

Deposits and investments	\$ 82,158,554
Interest receivable	255,137
Other receivable	690
Prepaid expenses	<u>2,611</u>
Total Assets	<u><u>\$ 82,416,992</u></u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 3,410,463
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FUND BALANCE

Restricted for capital projects	<u>79,006,529</u>
Total Liabilities and Fund Balance	<u><u>\$ 82,416,992</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
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Investment income	\$ 449,614
All other local income	
Proceeds from sale of bonds	78,976,018
Total Revenues	<u>79,425,632</u>

EXPENDITURES

Current Expenditures	
Classified salaries	777,369
Employees benefits	377,797
Supplies	256,572
Services and other operating expenses	416,417
Capital Outlay	21,645,233
Total Expenditures	<u>23,473,388</u>

NET CHANGE IN FUND BALANCE	55,952,244
FUND BALANCE - BEGINNING	<u>23,054,285</u>
FUND BALANCE - ENDING	<u>\$ 79,006,529</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, 2017

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 summarizes the 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
02/15/17	Series E	78,970,000
	Total	<u>\$ 348,996,088</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, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Balance - Governmental Funds

As of June 30, 2017, 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.

NOTE 2 - INVESTMENTS

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>\$ 82,158,554</u>	<u>\$ 81,968,257</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 \$81,968,257 with an average maturity of 528 days.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level.

Investment in the county treasury investment pool is not measured using the input levels above because the participant'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. Accordingly, the Fund's investment in the Santa Clara County Pool is uncategorized

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2008 MEASURE E FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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		Defeased/ Redeemed	Bonds	
				Outstanding June 30, 2016	Issued		Outstanding June 30, 2017	
2008 A	2039	4.0%-5.0%	\$ 50,000,000	\$ 2,260,000	\$ -	\$ 1,100,000	\$ 1,160,000	
2008 B	2040	3.0%-5.0%	100,000,000	8,600,000	-	1,990,000	6,610,000	
2008 C	2026	4.0%	20,026,088	14,444,633	-	1,258,665	13,185,968	
2008 D	2043	2.0%-5.0%	100,000,000	99,670,000	-	760,000	98,910,000	
2015 Ref	2039	3.0%-5.0%	41,420,000	41,420,000	-	70,000	41,350,000	
2016 Ref	2040	3.0%-5.0%	83,665,000	83,665,000	-	1,585,000	82,080,000	
2008 E	2031	3.5%-5.0%	78,970,000	-	78,970,000	-	78,970,000	
Total				<u>\$ 250,059,633</u>	<u>\$ 78,970,000</u>	<u>\$ 6,763,665</u>	<u>\$ 322,265,968</u>	

2015 Refunding bonds were issued on August 4, 2015 to refund partially the 2008 election series A bonds. 2016 Refunding bonds were issued on May 11, 2016 to refund partially 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
2018	\$ 5,805,711	\$ 11,890,041	\$ 17,695,752
2019	6,209,240	13,776,665	19,985,905
2020	6,544,309	13,506,540	20,050,849
2021	8,070,982	13,259,447	21,330,429
2022	8,969,321	12,855,811	21,825,132
2023 - 2027	62,926,405	55,856,120	118,782,525
2028 - 2032	99,415,000	37,657,009	137,072,009
2033 - 2037	62,105,000	19,026,704	81,131,704
2038 - 2042	54,920,000	6,345,402	61,265,402
2043 - 2044	7,300,000	164,250	7,464,250
Total	<u>\$ 322,265,968</u>	<u>\$ 184,337,989</u>	<u>\$ 506,603,957</u>

Debt Service Requirements

The general obligation bonds mature through the 2044 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, 2017

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2017, the District had construction commitments which are partially funded by the 2008 Measure E Fund as follows:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Andrew Hill - Gymnasium Windows Replacement	\$ 27,029	6/30/2018
District Program Cost and Program Management Services Cost	127,795	6/30/2018
District Wide - Roofing	2,048,867	6/30/2018
Evergreen Valley - Mechanical and Electrical Upgrades	898,971	6/30/2018
Evergreen Valley - Science Classroom Refurbish	32,790	6/30/2018
Foothill - Quad Upgrade (Hardscape - Landscape)	299,793	6/30/2018
Independence Adult Center Admin New Building and Miscellaneous Improvements	133,807	6/30/2018
Independence - Building J Modernization	3,675,519	6/30/2018
Piedmont Hills - New Small Gym	19,653	6/30/2018
Piedmont Hills - New Classroom Building D1 & D2	2,259,194	6/30/2019
Independence - Buildings G,H,K and L Modernization	1,345,863	6/30/2018
Independence - Portable Village	108,626	6/30/2018
James Lick - Student Center and Quad Modernization	8,595,184	6/30/2019
Mt. Pleasant - New Student Center and Quad Modernization	1,403,172	6/30/2018
Mt. Pleasant - Pool Modernization	46,273	6/30/2018
Oak Grove - New Student Center and Quad Renovation	1,282	6/30/2019
Oak Grove - Replacement Security Fencing	9,604	6/30/2018
Santa Teresa - Landscape and Hardscape Upgrade	359,894	6/30/2018
Santa Teresa - Field Concession Building	51,464	6/30/2018
Santa Teresa - Pool Modernization	54,196	6/30/2018
Santa Teresa - Student Parking Lot Entry Improvement	32,277	6/30/2018
Santa Teresa - Track and Field Improvements	68,750	6/30/2018
Silver Creek - Field Concession Building	60,876	6/30/2018
Silver Creek - Upgrade Quads	90,256	6/30/2018
W.C. Overfelt - Building L Classroom Modernization	42,532	6/30/2018
Yerba Buena - Alternative Ed MiniCampus Improvements	550,969	6/30/2018
Yerba Buena - Concession/Restroom Building	436,006	6/30/2018
Yerba Buena - New Student Union and Quad Modernization	5,627,410	6/30/2019
Yerba Buena - Pool Modernization	214,419	6/30/2018
	<u>\$ 28,622,471</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, 2017.

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INDEPENDENT AUDITOR'S REPORT

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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 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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated _____, 2017.

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
_____, 2017

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SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2008 MEASURE E FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

2008 MEASURE E FUND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2017

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2012 MEASURE I FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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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, 2017, 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, 2017, 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, 2017, 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 _____, 2017, 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
_____, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2012 MEASURE I FUND
BALANCE SHEET
JUNE 30, 2017**

ASSETS

Deposits and investments	\$ 66,242,015
Interest receivable	208,761
Prepaid expenses	2,611
Total Assets	<u>\$ 66,453,387</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 4,057,535
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FUND BALANCE

Restricted for capital projects	62,395,852
Total Liabilities and Fund Balance	<u>\$ 66,453,387</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, 2017**

REVENUES

Investment income \$ 842,341

EXPENDITURES

Current Expenditures

Classified salaries	466,381
Employees benefits	226,179
Supplies	1,655,792
Services and other operating expenses	1,242,686
Capital Outlay	<u>29,681,114</u>
Total Expenditures	<u>33,272,152</u>

NET CHANGE IN FUND BALANCE	(32,429,811)
FUND BALANCE - BEGINNING	<u>94,825,663</u>
FUND BALANCE - ENDING	<u><u>\$ 62,395,852</u></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, 2017

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 summarizes the 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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Balance - Governmental Funds

As of June 30, 2017, 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.

NOTE 2 - INVESTMENTS

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>\$ 66,242,015</u>	<u>\$ 66,088,584</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 \$66,088,584 with an average maturity of 528 days.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level.

Investment in the county treasury investment pool are not measured using the input levels above because the participant'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. Accordingly, the Fund's investment in the Santa Clara County Pool is uncategorized.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2012 MEASURE I FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 - GENERAL LONG-TERM DEBT

The 2012 Measure I general obligation bonds are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2016	Issued	Defeased/ Redeemed	Bonds Outstanding June 30, 2017
2012 A	2039	2.0%-5.3%	\$ 20,000,000	\$ 18,000,000	\$ -	\$ 465,000	\$ 17,535,000
2012 B	2036	4.0%-5.0%	100,000,000	100,000,000	-	2,000,000	98,000,000
				<u>\$ 118,000,000</u>	<u>\$ -</u>	<u>\$ 2,465,000</u>	<u>\$ 115,535,000</u>

The debt service requirements of 2012 Measure I bond program are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	3,415,000	4,876,819	8,291,819
2023-2027	22,670,000	21,328,970	43,998,970
2028-2032	34,800,000	14,314,286	49,114,286
2033-2037	40,500,000	4,456,820	44,956,820
2038-2039	2,475,000	131,644	2,606,644
Total	<u>\$ 115,535,000</u>	<u>\$ 66,050,590</u>	<u>\$ 181,585,590</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, 2017

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2017, the District had construction commitments which are partially funded by the 2012 Measure I Fund as follows:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Andrew Hill - Courtyards Improvements	\$ 236,859	6/30/2018
District Program Cost and Program Management Services Cost	854,586	6/30/2018
District Wide - Security Camera Upgrades	10,396	6/30/2018
District Wide - Fire Alarm Modernization	8,178,325	6/30/2018
District Wide - Security Camera Upgrades	88,660	6/30/2018
District Wide - Wireless Network Phase 2	58,680	6/30/2018
Foothill - Building D Computer Lab Modernization	2,202	6/30/2018
Foothill - Hooper Hall Modernization	643,926	6/30/2018
Foothill - Quad Upgrade (Hardscape - Landscape)	11,247	6/30/2018
Foothill - Site Infrastructure Improvements	26,242	6/30/2018
James Lick - Classroom Modernization	70,146	6/30/2018
James Lick - Pool Modernization	19,773	6/30/2018
James Lick - Site Infrastructure Improvements	2,649	6/30/2018
James Lick - Student Center and Quad Modernization	2,507,386	6/30/2018
Mt. Pleasant - New Student Center and Quads	2,899,479	6/30/2018
Mt. Pleasant - Pool Modernization	11,927	6/30/2018
Mt. Pleasant - Site Infrastructure Improvements	12,019	6/30/2018
Oak Grove - New Student Center and Quad Renovation	306,736	6/30/2018
Oak Grove - Renovate Building H1/H2 Restrooms	436,244	6/30/2018
Evergreen Valley - Fire Damper Upgrade	5,190	6/30/2018
Evergreen Valley - Science Classroom Refurbish	7,917	6/30/2018
Independence - Building J Modernization	571,777	6/30/2018
Independence - Buildings G,H, K and L Modernization	242,901	6/30/2018
Independence - Streetscape, Infrastructure, Wayfinding Modernization	234,407	6/30/2018
Phoenix - Classroom Building and Courtyard	329,154	6/30/2018
Santa Teresa - Building 1300 Modernization	39,621	6/30/2018
Santa Teresa - Building 600 Modernization	91,438	6/30/2018
Santa Teresa - Field Concession Building	67,538	6/30/2018
Santa Teresa - Infrastructure Modernization	4,774	6/30/2018
Santa Teresa - Student Parking Lot Entry	306,630	6/30/2018
Santa Teresa - Swimming Pool Modernization	12,900	6/30/2018

EAST SIDE UNION HIGH SCHOOL DISTRICT

2012 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 4 - COMMITMENTS AND CONTINGENCIES, CONTINUED

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Oak Grove - Replacement Security Fencing	109,178	6/30/2018
Piedmont Hills - New Classroom Building D1 and D2	9,583,898	6/30/2018
Piedmont Hills - Pool Modernization	178,268	6/30/2018
Piedmont Hills - Site Infrastructure Improvements	21,213	6/30/2018
Silver Creek - Building N Modernization and New Quad Marquee	889,894	6/30/2018
Silver Creek - Field Concession Building	23,815	6/30/2018
Silver Creek - Pool Modernization	19,200	6/30/2018
Silver Creek - Site Infrastructure Improvements	30,463	6/30/2018
Silver Creek - Upgrade Quads	1,112,180	6/30/2018
W.C. Overfelt - Pool Modernization	40,902	6/30/2018
W.C. Overfelt - Infrastructure	300	6/30/2018
W.C. Overfelt - Music, Art and Administration New Building and Central Quad Modernization	1,266,460	6/30/2018
Yerba Buena - New Student Union and Quad Modernization	6,944,645	6/30/2018
Yerba Buena - Pool Modernization	9,561	6/30/2018
	<u>\$ 38,521,706</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, 2017.

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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) 2012 Measure I Fund (the Fund), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated _____, 2017.

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
_____, 2017

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SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2012 MEASURE I FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2012 MEASURE I FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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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, 2017, 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, 2017, 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, 2017, 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 _____, 2017, 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
_____, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
BALANCE SHEET
JUNE 30, 2017**

ASSETS

Deposits and investments	\$ 3,042,348
Interest receivable	5,108
Prepaid expenses	222,035
Total Assets	<u>\$ 3,269,491</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 27,505
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FUND BALANCE

Restricted for capital projects	3,241,986
Total Liabilities and Fund Balance	<u>\$ 3,269,491</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, 2017**

REVENUES	
Investment income	<u>\$ 35,818</u>
EXPENDITURES	
Current Expenditures	
Classified salaries	22,015
Employees benefits	10,712
Supplies	113,012
Services and other operating expenses	2,746,161
Capital Outlay	223,549
Total Expenditures	<u>3,115,449</u>
NET CHANGE IN FUND BALANCE	(3,079,631)
FUND BALANCE - BEGINNING	<u>6,321,617</u>
FUND BALANCE - ENDING	<u><u>\$ 3,241,986</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 NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017, 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, 2017**

NOTE 2 - INVESTMENTS

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>\$ 3,042,348</u>	<u>\$ 3,035,301</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 \$3,035,301 with an average maturity of 528 days.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level.

Investment in the county treasury investment pool are not measured using the input levels above because the participant’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. Accordingly, the Fund’s investment in the Santa Clara County Pool is uncategorized.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 - GENERAL LONG-TERM DEBT

The 2014 Measure I general obligation bonds are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Issued	Defeased/ Redeemed	Bonds Outstanding June 30, 2017
2014 A	2019	5.00%	\$ 16,200,000	\$ 16,200,000	\$ -	\$ 5,100,000	\$ 11,100,000

The debt service requirements of 2014 Measure I bond programs are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 5,410,000	\$ 419,750	\$ 5,829,750
2019	5,690,000	142,250	5,832,250
Total	\$ 11,100,000	\$ 562,000	\$ 11,662,000

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

Construction Commitments

As of June 30, 2017, the District had construction commitments which are partially funded by the 2014 Measure I Fund as follows:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
District Program Cost	\$ 4,767	6/30/2018
District Wide - Project Devices	22,328	6/30/2018
	<u>27,095</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, 2017.

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INDEPENDENT AUDITOR'S REPORT

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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 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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated _____, 2017.

As discussed in Note 1, the financial statements present only the Fund specific to 2014 Measure I Fund, and are not intended to present fairly the financial position and changes in financial position of East Side Union High School District in accordance with accounting principles generally accepted in the United States of America

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
_____, 2017

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SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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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), 2016 Measure Z Fund (the Fund), as of and for the year ended June 30, 2017, 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 2016 Measure Z Fund of the East Side Union High School District as of June 30, 2017, 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 2016 Measure Z Fund, as of June 30, 2017, 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 _____, 2017, 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
_____, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
BALANCE SHEET
JUNE 30, 2017**

ASSETS

Deposits and investments	\$ 71,837,983
Interest receivable	20,094
Total Assets	<u>\$ 71,858,077</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 2,344
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FUND BALANCE

Restricted for capital projects	71,855,733
Total Liabilities and Fund Balance	<u>\$ 71,858,077</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Investment income	\$ 20,094
Proceeds from sale of bond	72,000,000
Total Revenues	<u>72,020,094</u>

EXPENDITURES

Current Expenditures	
Services and other operating expenses	161,842
Capital Outlay	2,519
Total Expenditures	<u>164,361</u>

NET CHANGE IN FUND BALANCE

71,855,733

FUND BALANCE - BEGINNING

-

FUND BALANCE - ENDING

\$ 71,855,733

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

2016 MEASURE Z FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2016 Measure Z 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 Z Election of 2016 (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 \$510,000,000. The first series of bonds in the amount of \$72,000,000 were sold on May 31, 2017.

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

2016 MEASURE Z FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Balance - Governmental Funds

As of June 30, 2017, 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.

NOTE 2 - INVESTMENTS

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>\$ 71,837,983</u>	<u>\$ 71,671,591</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 \$71,671,591 with an average maturity of 528 days.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level.

Investment in the county treasury investment pool are not measured using the input levels above because the participant'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. Accordingly, the Fund's investment in the Santa Clara county pool is uncategorized.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 - GENERAL LONG-TERM DEBT

The 2016 Measure Z general obligation bonds are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds		Defeased/ Redeemed	Bonds	
				Outstanding July 1, 2016	Issued		Outstanding June 30, 2017	
2016 A	2021	2%-4%	\$ 72,000,000	\$ -	\$ 72,000,000	\$ -	\$ 72,000,000	

The debt service requirements of 2016 Measure Z bond programs are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 19,865,000	\$ 2,342,961	\$ 22,207,961
2019	21,160,000	1,716,650	22,876,650
2020	15,260,000	1,081,850	16,341,850
2021	15,715,000	471,450	16,186,450
Total	\$ 72,000,000	\$ 5,612,911	\$ 77,612,911

Debt Service Requirements

The general obligation bonds mature through the 2021 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, 2017, the District had construction commitments which are partially funded by the 2016 Measure Z Fund as follows:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
District Program Cost	\$ 22,657	6/30/2018

Litigation

The Fund is not involved in any known litigation as of June 30, 2017.

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INDEPENDENT AUDITOR'S REPORT

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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 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) 2016 Measure Z Fund (the Fund), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated _____, 2017.

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
_____, 2017

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SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

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**EAST SIDE UNION HIGH SCHOOL DISTRICT
Board Audit Committee - December 5, 2017
Detail of Terms Appointed**

Name	Title	Term(s) Appointed	Current Term Expiration Date	Years of Service
Pattie Cortese	Chair	As Appointed Annually	December 7, 2017	
Lan Nguyen	Vice Chair	As Appointed Annually	December 7, 2017	
Dan Juchau	Member	1 st term Feb. 2010 – Jan. 2011 2 nd term Feb. 2011 – Jan. 2013 3 rd term Feb. 2013 – Jan. 2015 4 th term Feb. 2015 – Jan. 2017 5 th term Feb. 2017 – Jan. 2019	January 31, 2019	8 thus far and 9 thru term
Bruce Berg	Member	1 st term Feb. 2010 – Jan. 2012 2 nd term Feb. 2012 – Jan. 2014 3 rd term Feb. 2014 – Jan. 2016 4 th term Feb. 2016 – Jan. 2018	January 31, 2018	8 thus far and 8 thru term
Jon Reinke	Member	1 st term Feb. 2012 – Jan. 2014 2 nd term Feb. 2014 – Jan. 2016 3 rd term Feb. 2016 – Jan. 2018	January 31, 2018	6 thus far and 6 thru term
Frank Stephens	Alternate Member	1 st term Feb. 2015 – Jan. 2016 2 nd term Feb. 2016 – Jan. 2017 3 rd term Feb. 2017 – Jan. 2018	January 31, 2018	3 thus far and 3 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 #15B

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 two committee members with a two-year term from February 1, 2018, through January 31, 2020, and one alternate with a one-year term from February 1, 2018, through January 31, 2019. 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.esuhsd.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.esuhsd.org/BoardAdmin/Board-Audit-Committee/index.html>

**DEADLINE FOR SUBMISSION OF MATERIALS:
8:00 AM, January 2, 2018**

For questions, contact:

Pattie Cortese, Board Trustee, via e-mail at cortese@esuhsd.org

Send application materials by mail, 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@esuhsd.org

**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>