

**EAST SIDE UNION
HIGH SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2014**

EAST SIDE UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Side Union High School District (the District) as of and for the year ended June 30, 2014, 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 *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, 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 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 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 16 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has resulted in a restatement of beginning net position in the government-wide financial statements. The impact of the restatement is a reduction in beginning net position of \$10,977,143. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and other post employment benefit information 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.

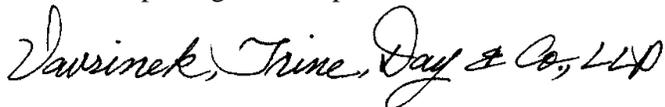
Other Information

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 accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* 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 accompanying 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of the East Side Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Side Union High School District's internal control over financial reporting and compliance.



Palo Alto, California
December 2, 2014

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Preparing every student to thrive in a global society.

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follows this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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 Board of Trustees

J. Manuel Herrera, President Van Thi Le, Vice President Magdalena Carrasco, Clerk Frank Biehl, Member Lan Nguyen, Member
Chris D. Funk, Superintendent

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EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

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

- The enrollment reported in the California Basic Educational Data System (CBEDS) decreased 154 to 23,532. Second period average daily attendance (commonly known as P-2 ADA) decreased 153 to 22,371. Because of the decline in enrollment, the District's current year Local Control Funding Formula (LCFF) funding was based on prior year's ADA net of charter school movement.
- This is the first year that the District received the State LCFF revenues. The net LCFF ADA is \$7,866 with 55.09% unduplicated count percentage of Economic Disadvantage, Foster Youth, Homeless, English Learner and Migrant Education Students.
- The District received a slight decrease (1.78% decrease from the prior year) in Title I funding and the No Child Left-Behind Program Improvement.
- The District maintained class sizes similar to the previous year at 33 to 1 average.
- The District eliminated 5 furlough days to all employees and maintained a 180 school days for the students.
- The District provided all employees with a 1.95% on schedule salary increase.
- The District monitors the budget conservatively and has a \$26.4 million unrestricted and \$1.3 million for Economic Impact Aid/Supplemental fund balance, \$4.87 million restricted fund balance and \$12.2 million in General Reserve for economic uncertainties.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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 will likely be an important component in this evaluation.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 - not the District as a whole. 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 U.S. 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, 2014

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 \$96.8 and \$107.3 million for the fiscal years ended June 30, 2014 and 2013, 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 governmental activities.

Table 1

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Current and other assets	\$ 235,036,311	\$ 258,037,918	\$ 59,446	\$ 403,760
Prepays for other postemployment benefits (OPEB)	24,712,227	23,473,983	-	-
Capital assets	606,989,921	592,605,787	-	-
Total Assets	866,738,459	874,117,688	59,446	403,760
Deferred charge on refunding	4,669,211	5,049,331	-	-
Total Deferred Outflows	4,669,211	5,049,331	-	-
Current liabilities	30,862,284	28,236,443	59,446	42,466
Long-term debt	743,736,709	743,587,453	-	-
Total Liabilities	774,598,993	771,823,896	59,446	42,466
Net position				
Net investment in capital assets	15,596,958	33,007,457	-	-
Restricted	48,713,085	40,818,746	-	-
Unrestricted	32,498,634	33,516,920	-	361,294
Total Net Position	\$ 96,808,677	\$ 107,343,123	\$ -	\$ 361,294

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 and rearranges by revenues and expenses.

Table 2

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Revenues				
Program revenues				
Charges for services	\$ 87,257	\$ 393,484	\$ 2,047,063	\$ 2,122,598
Operating grants and contributions	25,201,929	29,749,603	3,925,108	3,810,583
Capital grants and contributions	50,920	8,870,798	-	-
General revenues				
State and federal sources	99,797,963	84,585,782	-	-
Taxes	136,562,886	132,239,335	-	-
Other general revenues	14,576,156	12,008,772	16,364	2
Total Revenues	276,277,111	267,847,774	5,988,535	5,933,183
Expenses				
Instruction related	178,113,662	168,389,308	-	-
Student support services	25,891,412	23,145,392	-	-
Administration	11,173,621	13,079,339	320,175	254,191
Maintenance and operations	20,896,452	20,838,638	-	-
Other outgo	3,867,939	974,421	-	-
Food services	-	-	6,029,654	5,861,237
Interest and other	35,891,328	36,598,542	-	-
Total Expenses	275,834,414	263,025,640	6,349,829	6,115,428
Change in Net Position	\$ 442,697	\$ 4,822,134	\$ (361,294)	\$ (182,245)

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 \$275.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$136.6 million because the cost was paid by those who benefited from the programs (\$0.1 million) or by other governments and organizations who subsidized certain programs with operating and capital grants and contributions (\$25.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$113.9 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, 2014

In Table 3, we have presented the total primary government fund net cost of each of the District's largest functions. As discussed above, 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

	2014	2013
Instruction and related activities	\$ 157,666,812	\$ 139,378,596
Pupil services	22,335,208	15,571,725
General administration	9,971,248	12,225,664
Maintenance and operations	20,850,047	20,788,122
Interest	33,480,938	34,382,669
Other	6,190,055	1,664,979
Totals	<u>\$ 250,494,308</u>	<u>\$ 224,011,755</u>

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$209.7 million, which was a decrease of \$16.3 million from last year. The significant decrease in the combined fund balance was due to a decrease in the building fund balance from on-going construction activities related to the bond program.

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 on June 2013. (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 57).

The General Fund is the principal operating fund for the District. It is used to account for the ordinary operations of the District. The District received the State LCFF revenues for the first time this year. The net LCFF ADA is \$7,866 with 55.09% unduplicated count percentage of Economic Disadvantage, Foster Youth, Homeless, English Learner and Migrant Education Students. The District had another year of declining enrollment which decreased by 154 to 23,532 reported in the California Basic Educational Data System (CBEDS).

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District governmental activities had \$607 million in a broad range of capital assets. This amount represents a net increase (including additions, deductions and depreciation) of \$14.4 million, or 2.4%, from last year.

Table 4

	Governmental Activities	
	2014	2013
Land	\$ 25,442,454	\$ 25,442,454
Construction in progress	21,475,727	23,875,113
Buildings and improvements	712,900,811	675,526,209
Furniture and equipment	28,928,280	27,801,540
Total Assets	788,747,272	752,645,316
Less Accumulated Depreciation	181,757,351	160,039,529
Totals	\$ 606,989,921	\$ 592,605,787

Several capital projects are planned for the 2014-2015 and 2015-2016 years. We anticipate capital expenditures to be approximately \$110 million for the two upcoming years.

Major projects completed for fiscal year 2013-14:

- Calero High School – Modernization
- Evergreen Valley High School – Miscellaneous Building Improvements
- Evergreen Valley High School – Paving, Fencing and Site Improvements
- James Lick High School Building 500 – New Construction
- Independence High School – Swimming Pool Modernization
- Mount Pleasant High School – Gym Modernization
- Overfelt High School Adult Education – New Construction
- Piedmont Hills High School – New Auxiliary Gym
- Santa Teresa High School – Modernize Units 100, 200, 400, 700, 1300 and 1400
- W.C. Overfelt High School – Modernize Classroom Building D
- Yerba Buena High School – Title IX Interior Modernization

The following Measures G and E projects are planned for fiscal year 2014-15:

- Andrew Hill High School – Interior Flooring and Door Replacements
- Andrew Hill High School – Energy Efficiency Projects (HVAC and Electrical)
- Andrew Hill High School – New Classroom Building
- District-Wide – Asphalt/Concrete
- Evergreen Valley High School – Baseball, Softball Dugout and Tree Trimming
- Foothill High School – Roofing and Interior Flooring
- Independence High School – Modernizing Building G and N1, N2
- Independence High School – Asphalt/Concrete and Interior Flooring
- Independence High School – Building B Modernization

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- Independence High School – Energy Efficiency Projects (HVAC and Electrical)
- James Lick High School – Asphalt/Concrete, Roofing, Interior Flooring and Door Replacements
- James Lick High School – Energy Efficiency Projects (HVAC and Electrical)
- Mount Pleasant High School – Asphalt/Concrete, Roofing and Door Replacements
- Oak Grove High School – Asphalt/Concrete and Interior Flooring
- Oak Grove High School – Energy Efficiency Projects (HVAC and Electrical)
- Piedmont Hills High School – Asphalt/Concrete, Interior Flooring and Door Replacements
- Piedmont Hills High School – Modernization of Special Education Classroom
- Piedmont Hills High School – Energy Efficiency Projects (HVAC and Electrical)
- Phoenix High School – Science Classroom, Outdoor Learning and Toilet Building Addition
- Santa Teresa High School – Asphalt/Concrete and Interior Flooring
- Santa Teresa High School – Paving, Fencing and Site Improvements
- Silver Creek High School – Asphalt/Concrete, Interior Flooring and Door Replacements
- Silver Creek High School – Modernize and New Toilet Rooms (Student/Staff Buildings D, K, O, S)
- Silver Creek High School – Stadium Lighting
- Silver Creek High School – Energy Efficiency Projects (HVAC and Electrical)
- W.C. Overfelt High School – Modernize Special Education Building J
- W.C. Overfelt High School – Asphalt, Roofing and Door Replacements
- W.C. Overfelt High School – New Exterior Painting-Building
- W.C. Overfelt High School – Pool Modernization
- W.C. Overfelt High School – Energy Efficiency Projects (HVAC and Electrical)
- Yerba Buena High School – Asphalt/Concrete and Interior Flooring
- Yerba Buena High School – Pool Modernization
- Yerba Buena High School – Energy Efficiency Projects (HVAC and Electrical)
- Santa Teresa High School – Energy Efficiency Projects (HVAC and Electrical)
- Santa Teresa High School – Painting of Exterior of School

The following Measures G, E & I projects are planned for fiscal year 2015-2016:

- Andrew Hill High School – Pool Modernization
- District-Wide – Roofing
- James Lick High School – Pool Modernization
- Piedmont Hills High School – Pool Modernization
- Silver Creek High School – Pool Modernization
- Oak Grove High School – Modernize Building U
- Oak Grove High School – Theater Building I
- Independence High School – Modernization of Performing Arts
- Santa Teresa High School – Track Resurfacing and Stadium Lighting
- Santa Teresa High School – Pool Modernization

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Long-Term Obligations

Table 5

	Governmental Activities	
	2014	2013
General obligation bonds	\$ 677,690,156	\$ 679,895,483
Premium	30,072,503	25,920,721
OPEB revenue bonds	30,795,000	31,125,000
Supplemental retirement plan	2,152,970	3,229,455
Compensated absences (vacation)	3,026,080	3,416,794
Totals	\$ 743,736,709	\$ 743,587,453

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 \$743.7 million is below the statutorily imposed limit.

We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

Over the last several years the District has seen an increase in graduation rates, a decrease in dropout rates, and an increase in the percent of graduates completing the University of California/California State University a-g college course sequence. For the first time, we have been able to collect data on college enrollment and persistence, which shows that the majority of our graduates enroll in college within the first two years and return for a second school year. District administration is working on creating a rubric to evaluate both the implementation of the 5C's as well as the expression of the 5C's in student outcomes. The District encourages all students enrolled in the advanced placement (AP) course to take the college credit exam. Correlation between college enrollment and exams taken in AP is very high. For 2013-14, a total of 9,771 AP exams were taken and there were a total of 5,066 students who took at least one AP Test; a 72% increase or 2,944 more students took the AP exams. The District waives fees to encourage 10th grade students to take the Preliminary Scholastic Aptitude Test (PSAT) which prepares 11th graders for the Scholastic Aptitude Test (SAT). Depending on the results, students would qualify for college scholarships through the National Merit Scholarship Program. In 2013-14, 90% of 10th grade students took the PSAT and 29.9% met the college readiness indicator.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Overall State budget policy decisions continue to be reflective of slow but seemingly steady economic improvement; however, the Department of Finance lowered the forecast for 2015-16 LCFF funding levels significantly while the California State Teachers' Retirement System, certificated personnel retirement system, employers' rates progressively go up from 2014-15 till 2020-21. The District has to conservatively watch the budget and plan for the projections.

LCFF funding gap for 2014-15 projects at 29.56% with the prior year unduplicated count percentage at 55.09%. The District is projecting the student enrollment to level off or slightly increase. The projected 2014-15 CBEDS enrollment is 23,655, which is 123 (or 0.5%) higher than 2013-14.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 205,097,219	\$ 1,086,167	\$ 206,183,386
Receivables	24,292,311	496,785	24,789,096
Internal balances	1,624,409	(1,624,409)	-
Prepaid expenses	2,927,757	-	2,927,757
Stores inventories	159,435	100,903	260,338
Other current assets	935,180	-	935,180
Postemployment benefits contributions	24,712,227	-	24,712,227
Capital assets not depreciated	46,918,181	-	46,918,181
Capital assets, net of accumulated depreciation	560,071,740	-	560,071,740
Total Assets	866,738,459	59,446	866,797,905
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	4,669,211	-	4,669,211
LIABILITIES			
Accounts payable	15,033,086	59,446	15,092,532
Interest payable	12,478,873	-	12,478,873
Unearned revenue	1,991,582	-	1,991,582
Claims liabilities	1,358,743	-	1,358,743
Current portion of long-term obligations	23,772,425	-	23,772,425
Noncurrent portion of long-term obligations	719,964,284	-	719,964,284
Total Liabilities	774,598,993	59,446	774,658,439
NET POSITION			
Net investment in capital assets	15,596,958	-	15,596,958
Restricted for:			
Debt service	19,359,410	-	19,359,410
Capital projects	17,537,635	-	17,537,635
Educational programs	4,874,682	-	4,874,682
Self insurance	6,941,358	-	6,941,358
Unrestricted	32,498,634	-	32,498,634
Total Net Position	\$ 96,808,677	\$ -	\$ 96,808,677

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 148,136,572	\$ 57,685	\$ 13,660,905	\$ 50,920
Instruction-related activities:				
Supervision of instruction	13,757,216	11,740	6,001,937	-
Instructional library and technology	687,493	-	17,604	-
School site administration	15,532,381	412	645,647	-
Pupil services:				
Home-to-school transportation	6,986,993	-	-	-
All other pupil services	18,904,419	15,284	3,540,920	-
Administration:				
Data processing	3,735,749	-	175,703	-
All other administration	7,437,872	1,091	1,025,579	-
Maintenance and operations	20,896,452	4	46,401	-
Ancillary services	2,377,330	136	11,419	-
Community services	33,060	351	29,474	-
Interest on long-term obligations	33,480,938	-	-	-
Other outgo	3,867,939	554	46,340	-
Total Governmental Activities	275,834,414	87,257	25,201,929	50,920
Business-Type Activities:				
Food services	6,029,654	1,943,845	3,727,195	-
Administration	320,175	103,218	197,913	-
Total Business-Type Activities	6,349,829	2,047,063	3,925,108	-
Total Primary Government	\$ 282,184,243	\$ 2,134,320	\$ 29,127,037	\$ 50,920

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
- Net Position - Ending

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

Net (Expenses) Revenues and Change in Net Position		
Governmental Activities	Business- Type Activities	Total
\$ (134,367,062)	\$ -	\$ (134,367,062)
(7,743,539)	-	(7,743,539)
(669,889)	-	(669,889)
(14,886,322)	-	(14,886,322)
(6,986,993)	-	(6,986,993)
(15,348,215)	-	(15,348,215)
(3,560,046)	-	(3,560,046)
(6,411,202)	-	(6,411,202)
(20,850,047)	-	(20,850,047)
(2,365,775)	-	(2,365,775)
(3,235)	-	(3,235)
(33,480,938)	-	(33,480,938)
(3,821,045)	-	(3,821,045)
(250,494,308)	-	(250,494,308)
-	(358,614)	(358,614)
-	(19,044)	(19,044)
-	(377,658)	(377,658)
(250,494,308)	(377,658)	(250,871,966)
85,060,957	-	85,060,957
50,807,285	-	50,807,285
694,644	-	694,644
99,797,963	-	99,797,963
804,566	-	804,566
818,346	-	818,346
(16,364)	16,364	-
12,969,608	-	12,969,608
250,937,005	16,364	250,953,369
442,697	(361,294)	81,403
96,365,980	361,294	96,727,274
\$ 96,808,677	\$ -	\$ 96,808,677

EAST SIDE UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 30,906,261	\$ 115,068,873	\$ 31,827,720
Receivables	23,672,885	117,246	10,563
Due from other funds	2,507,890	-	-
Prepaid expenditures	1,521,895	-	-
Stores inventories	159,435	-	-
Total Assets	\$ 58,768,366	\$ 115,186,119	\$ 31,838,283
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 11,386,428	\$ 3,485,634	\$ -
Due to other funds	-	-	-
Unearned revenue	1,824,903	-	-
Total Liabilities	13,211,331	3,485,634	-
Fund Balances:			
Nonspendable	1,683,830	-	-
Restricted	4,874,682	111,700,485	31,838,283
Committed	-	-	-
Assigned	-	-	-
Unassigned	38,998,523	-	-
Total Fund Balances	45,557,035	111,700,485	31,838,283
Total Liabilities and Fund Balances	\$ 58,768,366	\$ 115,186,119	\$ 31,838,283

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 21,245,533	\$ 199,048,387
491,617	24,292,311
-	2,507,890
-	1,521,895
-	159,435
<u>\$ 21,737,150</u>	<u>\$ 227,529,918</u>

\$ 71,251	\$ 14,943,313
883,481	883,481
166,679	1,991,582
<u>1,121,411</u>	<u>17,818,376</u>
-	1,683,830
17,537,635	165,951,085
3,076,546	3,076,546
1,558	1,558
-	38,998,523
<u>20,615,739</u>	<u>209,711,542</u>
<u>\$ 21,737,150</u>	<u>\$ 227,529,918</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

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

Total Fund Balance - Governmental Funds	\$ 209,711,542
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	\$ 788,747,272
Accumulated depreciation is	<u>(181,757,351)</u>
	606,989,921
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.	4,669,211
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.	(12,478,873)
Excess contributions over the annual required contribution (ARC) to the other post-employment benefit trust are recognized as prepaid in the government-wide statements. On the governmental funds, the contributions are treated as expenditures.	24,712,227
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.	6,941,358
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	677,690,156
Premium	30,072,503
OPEB revenue bonds	30,795,000
Supplemental retirement plan	2,152,970
Compensated absences (vacation)	<u>3,026,080</u>
	(743,736,709)
Total Net Position - Governmental Activities	<u><u>\$ 96,808,677</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, 2014

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local control funding formula	\$ 179,468,109	\$ -	\$ -
Federal sources	11,344,522	-	-
Other State sources	19,060,903	-	411,253
Other local sources	10,063,071	524,970	50,432,219
Total Revenues	<u>219,936,605</u>	<u>524,970</u>	<u>50,843,472</u>
EXPENDITURES			
Current			
Instruction	134,514,161	-	-
Instruction-related activities:			
Supervision of instruction	11,989,551	-	-
Instructional library and technology	601,064	-	-
School site administration	13,538,316	-	-
Pupil services:			
Home-to-school transportation	6,287,526	-	-
All other pupil services	17,011,900	-	-
Administration:			
Data processing	3,361,764	-	-
All other administration	9,089,270	-	-
Maintenance and operations	17,371,502	-	-
Facility acquisition and construction	-	38,306,396	-
Ancillary services	2,139,335	-	-
Community services	29,750	-	-
Other outgo	3,867,939	-	-
Debt service			
Principal	330,000	-	20,148,644
Interest and other	1,649,599	-	29,513,065
Total Expenditures	<u>221,781,677</u>	<u>38,306,396</u>	<u>49,661,709</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,845,072)</u>	<u>(37,781,426)</u>	<u>1,181,763</u>
Other Financing Sources (Uses)			
Transfers in	6,903,132	-	-
Other sources	-	20,016,391	802,707
Transfers out	(516,364)	-	-
Net Financing Sources (Uses)	<u>6,386,768</u>	<u>20,016,391</u>	<u>802,707</u>
NET CHANGE IN FUND BALANCES	<u>4,541,696</u>	<u>(17,765,035)</u>	<u>1,984,470</u>
Fund Balance - Beginning	<u>41,015,339</u>	<u>129,465,520</u>	<u>29,853,813</u>
Fund Balance - Ending	<u>\$ 45,557,035</u>	<u>\$ 111,700,485</u>	<u>\$ 31,838,283</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 179,468,109
1,250,683	12,595,205
1,124,896	20,597,052
2,596,458	63,616,718
<u>4,972,037</u>	<u>276,277,084</u>
1,440,509	135,954,670
390,432	12,379,983
17,604	618,668
439,120	13,977,436
-	6,287,526
-	17,011,900
-	3,361,764
15,841	9,105,111
552,158	17,923,660
768,352	39,074,748
-	2,139,335
-	29,750
-	3,867,939
-	20,478,644
-	31,162,664
<u>3,624,016</u>	<u>313,373,798</u>
<u>1,348,021</u>	<u>(37,096,714)</u>
500,000	7,403,132
-	20,819,098
<u>(6,903,132)</u>	<u>(7,419,496)</u>
<u>(6,403,132)</u>	<u>20,802,734</u>
(5,055,111)	(16,293,980)
25,670,850	226,005,522
<u>\$ 20,615,739</u>	<u>\$ 209,711,542</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, 2014

Total Net Change in Fund Balances - Governmental Funds **\$ (16,293,980)**

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	\$ 36,101,956	
Depreciation expense	<u>(21,717,822)</u>	14,384,134

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 \$390,714.

390,714

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.

(380,120)

Issuance of general obligations bonds, including \$802,707 premium, is recognized as a revenue on the statement of revenues, expenditures and changes in fund balances but is removed from the statement of activities.

(20,802,707)

Issuance of refunding bonds, including \$9,351,415 premium, is recognized as a liability on the statement of net position. It does not affect the statement of revenues, expenditures and changes in fund balances.

(138,896,415)

Payment of the refunded bonds is not recognized as an expense in the statement of revenues, expenditures and changes in fund balances. It reduces long-term debt on the statement of net position and does not affect statement of revenues, expenditures and changes in fund balances.

133,748,296

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.

6,002,340

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, 2014

Obligations related to the District's supplemental retirement plan are recorded as revenues on the statement of revenues, expenditures and changes in fund balances but is removed from the statement of activities and recognized as long-term debt on the statement of net position.		1,076,485
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.		(2,146,613)
The overfunded portion of the Other Postemployment Benefits Annual Required Contribution (ARC) is not recorded in the governmental funds. In the statement of activities, the overfunded portion of the ARC is removed from expenses.		1,238,244
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	20,148,644	
Other postemployment benefit bonds	<u>330,000</u>	20,478,644
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.		(645,762)
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.		<u>2,289,437</u>
Change in Net Position - Government-Wide Activities		<u>\$ 442,697</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, 2014

	Business-Type Activities- Cafeteria Enterprise Fund	Governmental Activities - Internal Service Fund	Total Proprietary Funds
ASSETS			
Current Assets			
Deposits and investments	\$ 1,086,167	\$ 6,048,832	\$ 7,134,999
Receivables	496,785	-	496,785
Prepaid expenses	-	1,405,862	1,405,862
Stores inventories	100,903	-	100,903
Other current assets	-	935,180	935,180
Total Current Assets	<u>1,683,855</u>	<u>8,389,874</u>	<u>10,073,729</u>
LIABILITIES			
Current Liabilities			
Accounts payable	59,446	89,773	149,219
Due to other funds	1,624,409	-	1,624,409
Claim liabilities	-	1,358,743	1,358,743
Total Current Liabilities	<u>1,683,855</u>	<u>1,448,516</u>	<u>3,132,371</u>
NET POSITION			
Restricted for insurance programs	-	6,941,358	6,941,358
Total Net Position	<u>\$ -</u>	<u>\$ 6,941,358</u>	<u>\$ 6,941,358</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, 2014**

	Business-Type Activities- Cafeteria Enterprise Fund	Governmental Activities - Internal Service Fund	Total Proprietary Funds
OPERATING REVENUES			
Food sales	\$ 2,047,063	\$ -	\$ 2,047,063
Other local revenue	11,544	2,633,752	2,645,296
Total Operating Revenues	<u>2,058,607</u>	<u>2,633,752</u>	<u>4,692,359</u>
OPERATING EXPENSES			
Payroll costs	3,959,998	243	3,960,241
Supplies and materials	2,026,479	86,687	2,113,166
Equipment rental	12,699	431,595	444,294
Claims	-	2,965,032	2,965,032
Other operating expenses	350,653	40,117	390,770
Total Operating Expenses	<u>6,349,829</u>	<u>3,523,674</u>	<u>9,873,503</u>
Operating Loss	<u>(4,291,222)</u>	<u>(889,922)</u>	<u>(5,181,144)</u>
NONOPERATING REVENUES			
Interest income	3	-	3
Federal grants	3,612,857	-	3,612,857
State grants	300,704	-	300,704
Indistrict contributions	-	3,179,359	3,179,359
Other transfer in	16,364	-	16,364
Total Nonoperating Revenues	<u>3,929,928</u>	<u>3,179,359</u>	<u>7,109,287</u>
Change in net position	<u>(361,294)</u>	<u>2,289,437</u>	<u>1,928,143</u>
Total Net Position - Beginning	361,294	4,651,921	5,013,215
Total Net Position - Ending	<u>\$ -</u>	<u>\$ 6,941,358</u>	<u>\$ 6,941,358</u>

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, 2014**

	Business- Type Activities- Cafeteria Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 2,071,098	\$ 2,830,524
Cash payments to employees for services	(3,960,734)	(243)
Cash payments for insurance claims	-	(3,678,735)
Cash payments to suppliers for goods and services	(1,316,820)	(144,411)
Cash payments for equipment rental	(12,699)	(431,595)
Cash payments for other operating expenses	(350,653)	(40,117)
Net Cash Used For Operating Activities	<u>(3,569,808)</u>	<u>(1,464,577)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Operating grants and contributions	3,869,506	-
Cash received from General Fund	16,364	3,179,359
Net Cash Provided by Noncapital Financing Activities	<u>3,885,870</u>	<u>3,179,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3	-
Net Cash Provided by Investing Activities	<u>3</u>	<u>-</u>
Net increase in cash and cash equivalents	316,065	1,714,782
Cash and cash equivalents - Beginning	770,102	4,334,050
Cash and cash equivalents - Ending	<u>\$ 1,086,167</u>	<u>\$ 6,048,832</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (4,291,222)	\$ (889,922)
Changes in assets and liabilities:		
Receivables	12,491	379,461
Prepaid expense	-	(453,478)
Stores inventories	(20,284)	-
Other current assets	-	(182,689)
Accounts payable	16,980	(57,724)
Due to other funds	712,227	-
Claims liabilities	-	(260,225)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (3,569,808)</u>	<u>\$ (1,464,577)</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, 2014

	<u>Retiree Benefit Trust Fund</u>	<u>Student Scholarship Trust Fund</u>	<u>Associated Student Body Agency Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS				
Deposits and investments	<u>\$ 28,179,981</u>	<u>\$ 720,212</u>	<u>\$ 1,609,081</u>	<u>\$ 30,509,274</u>
LIABILITIES				
Due to student groups	<u>-</u>	<u>-</u>	<u>1,609,081</u>	<u>1,609,081</u>
NET POSITION				
Restricted	<u>\$ 28,179,981</u>	<u>\$ 720,212</u>	<u>\$ -</u>	<u>\$ 28,900,193</u>

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, 2014

	Retiree Benefit Trust Fund	Student Scholarship Trust Fund	Total Fiduciary Funds
ADDITIONS			
Investment income	\$ 4,270,381	\$ 95,409	\$ 4,365,790
Total Additions	<u>4,270,381</u>	<u>95,409</u>	<u>4,365,790</u>
 DEDUCTIONS			
Operating expenditures	38,724	-	38,724
Scholarships awarded	-	16,889	16,889
Total Deductions	<u>38,724</u>	<u>16,889</u>	<u>55,613</u>
 Change in Net Position	4,231,657	78,520	4,310,177
Net Position - Beginning	23,948,324	641,692	24,590,016
Net Position - Ending	<u>\$ 28,179,981</u>	<u>\$ 720,212</u>	<u>\$ 28,900,193</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 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, 2014

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 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.

Special Reserve Fund for Post Employment Benefits The Special Reserve Fund for Post Employment Benefits may be used pursuant to *California Education Code* Section 42840 to account for amounts the District has committed for the future cost of post employment benefits but has not contributed irrevocably to a separate trust for the post employment benefit plan.

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

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

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

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 food service 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 net total position. The statement of cash flows provides information about how the District finances and meets 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. Generally, available is defined as collectible within 45 or 60 days. However, 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, 2014

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, 2014, 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

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

Stores Inventories

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 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, 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 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, 2014

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 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.

Fund Balances - Governmental Funds

As of June 30, 2014, 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than six percent of General Fund expenditures and other financing uses.

Spending Order Policy

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

Net Position

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

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 and in district 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 non-operating 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 non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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.

Change in Accounting Principles

As the result of implementing GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$10,977,143. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Governmental funds	\$ 199,048,387
Proprietary funds	7,134,999
Fiduciary funds	30,509,274
Total Deposits and Investments	<u>\$ 236,692,660</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 6,206,846
Cash in revolving	2,600
Investments	230,483,214
Total Deposits and Investments	<u>\$ 236,692,660</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, 2014

General Authorizations

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

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

Interest Rate Risk

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

Investment Type	Carrying Value	Fair Value	Average Maturity in Years
Mutual Funds	\$ 28,844,611	\$ 28,844,611	0.00
Santa Clara County Investment Pool	201,438,603	201,440,859	1.14
Certificate of Deposits	200,000	200,000	0.17
Total	\$ 230,483,214	\$ 230,485,470	

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Credit Risk

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

Investment Type	Fair Value	Not Rated
Mutual Funds	\$ 28,844,611	\$ 28,844,611
Santa Clara County Investment Pool	201,440,859	201,440,859
Certificate Deposit	200,000	200,000
Total	\$ 230,485,470	\$ 230,485,470

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, District bank balances of \$5,230,865 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 District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Funds	Total Governmental Funds	Total Proprietary Funds
Federal Government						
Categorical Aid	\$ 1,308,086	\$ -	\$ -	\$ 392,649	\$ 1,700,735	\$ 464,567
State Government						
Apportionment	17,593,379	-	-	-	17,593,379	-
Categorical Aid	668,585	-	-	51,070	719,655	28,950
Lottery	2,058,825	-	-	-	2,058,825	-
Local Government						
Interest	35,439	117,246	10,563	23,575	186,823	-
Other Local Sources	2,008,571	-	-	24,323	2,032,894	3,268
Total	\$ 23,672,885	\$ 117,246	\$ 10,563	\$ 491,617	\$ 24,292,311	\$ 496,785

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS

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

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 25,442,454	\$ -	\$ -	\$ 25,442,454
Construction in progress	23,875,113	36,101,956	38,501,342	21,475,727
Total Capital Assets Not Being Depreciated	49,317,567	36,101,956	38,501,342	46,918,181
Capital Assets Being Depreciated:				
Buildings	597,424,145	31,566,814	-	628,990,959
Site improvement	78,102,064	5,807,788	-	83,909,852
Equipment	27,801,540	1,126,740	-	28,928,280
Total Capital Assets Being Depreciated	703,327,749	38,501,342	-	741,829,091
Total Capital Assets	752,645,316	74,603,298	38,501,342	788,747,272
Less Accumulated Depreciation:				
Buildings	131,553,148	16,595,186	-	148,148,334
Site improvement	10,623,670	3,359,608	-	13,983,278
Equipment	17,862,711	1,763,028	-	19,625,739
Total Accumulated Depreciation	160,039,529	21,717,822	-	181,757,351
Governmental Activities Capital Assets, Net	<u>\$ 592,605,787</u>	<u>\$ 52,885,476</u>	<u>\$ 38,501,342</u>	<u>\$ 606,989,921</u>

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

Governmental Activities	
Instruction	\$ 14,496,631
Supervision of instruction	1,377,233
Instructional library and technology	68,825
School site administration	1,554,945
Home to school transportation	699,467
All other pupil services	1,892,519
All other administration	1,012,912
Data processing	373,985
Ancillary services	237,995
Community services	3,310
Total Depreciation Expenses, Governmental Activities	<u>\$ 21,717,822</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2014, between major, non-major governmental funds and enterprise funds are as follows:

<u>Due To</u>	<u>Due From General Fund</u>
Non-Major Governmental	\$ 883,481
Proprietary Fund	1,624,409
Total	<u>\$ 2,507,890</u>

All balances resulted from the timing difference between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (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, 2014, consisted of the following:

<u>Transfer out</u>	<u>Transfer in</u>			
	General Fund	Non-Major Fund	Proprietary Fund	Total
General Fund	\$ -	\$ 500,000	\$ 16,364	\$ 516,364
Non-Major Governmental	6,903,132	-	-	6,903,132
Total	<u>\$ 6,903,132</u>	<u>\$ 500,000</u>	<u>\$ 16,364</u>	<u>\$ 7,419,496</u>

The General Fund transferred to Deferred Maintenance Fund for contribution.	\$ 500,000
The Special Reserve Fund for Post Employment Benefit transferred to General Fund to reimburse OPEB and Supplemental Early Retirement Plan (SERP) payment.	3,500,000
The General Fund transferred to Cafeteria Proprietary Fund for contribution.	16,364
The Adult Education Fund transferred to the General Fund for support.	3,403,132
	<u>\$ 7,419,496</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, 2014

NOTE 6 - DEFERRED OUTFLOWS OF RESOURCES

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 net investment in capital assets amount of \$27,115,464 includes the effect of deferring the recognition of loss from advance refunding. The \$4,669,211 balance of the deferred outflow of resources at June 30, 2014 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The changes in the District's deferred outflow of resources during the year consisted of the following:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Defeasance costs	\$ 5,049,331	\$ -	\$ 380,120	\$ 4,669,211

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Total Proprietary Funds
Vendor payables	\$ 3,286,280	\$ 3,465,830	\$ 65,364	\$ 6,817,474	\$ 149,219
State apportionment	3,577,742	-	-	3,577,742	-
Salaries and benefits	4,522,406	19,804	5,887	4,548,097	-
Total	<u>\$ 11,386,428</u>	<u>\$ 3,485,634</u>	<u>\$ 71,251</u>	<u>\$ 14,943,313</u>	<u>\$ 149,219</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 292,271	\$ 92,398	\$ 384,669
State categorical aid	170,651	74,281	244,932
Other local	1,361,981	-	1,361,981
Total	<u>\$ 1,824,903</u>	<u>\$ 166,679</u>	<u>\$ 1,991,582</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 679,895,483	\$ 151,691,613	\$ 153,896,940	\$ 677,690,156	\$ 20,335,070
Premium	25,920,721	10,154,122	6,002,340	30,072,503	1,970,870
OPEB revenue bonds	31,125,000	-	330,000	30,795,000	390,000
Supplemental retirement	3,229,455	-	1,076,485	2,152,970	1,076,485
Compensated absences (vacation)	3,416,794	-	390,714	3,026,080	-
	<u>\$ 743,587,453</u>	<u>\$ 161,845,735</u>	<u>\$ 161,696,479</u>	<u>\$ 743,736,709</u>	<u>\$ 23,772,425</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, 2014

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2014
Current Interest Bond							
2003 Refunding	2022	3.0%-4.6%	\$ 36,795,000	\$ 1,995,000	\$ -	\$ 1,995,000	\$ -
2003 Refunding	2025	2.0%-5.3%	97,160,000	70,055,000	-	2,570,000	67,485,000
2002 Series D	2030	3.5%-5.0%	70,000,000	58,005,000	-	58,005,000	-
2003 Series F	2036	4.0%-5.0%	50,000,000	44,230,000	-	43,020,000	1,210,000
2006 Refunding	2036	4.0%-5.25%	42,665,000	42,665,000	-	1,390,000	41,275,000
2007 Refunding	2020	4.0%-5.0%	11,545,000	10,445,000	-	1,670,000	8,775,000
2008 Series A	2039	4.0%-5.0%	50,000,000	47,010,000	-	915,000	46,095,000
2002 Series H	2034	5.1%-6.0%	18,000,000	17,425,000	-	275,000	17,150,000
2008 Series B	2040	3.0%-5.0%	100,000,000	96,840,000	-	1,700,000	95,140,000
2010 Refunding	2028	2.0%-5.0%	46,160,000	43,370,000	-	2,230,000	41,140,000
2008 Series C	2026	4.0%	20,026,088	17,966,390	-	1,108,644	16,857,746
2008 Series D	2043	2.0%-5.0%	100,000,000	100,000,000	-	-	100,000,000
2011 Refunding	2022	3.8%-4.6%	20,135,000	19,995,000	-	1,125,000	18,870,000
2012 Refunding	2029	2.0%-5.0%	36,735,000	36,735,000	-	1,630,000	35,105,000
2013 Refunding	2029	3.0%-5.0%	88,145,000	-	88,145,000	-	88,145,000
2014 Refunding	2035	2.0%-5.0%	41,400,000	-	41,400,000	-	41,400,000
2012 Series A	2034	2.0%-5.0%	20,000,000	-	20,000,000	-	20,000,000
Subtotal			<u>848,766,088</u>	<u>606,736,390</u>	<u>149,545,000</u>	<u>117,633,644</u>	<u>638,647,746</u>
Capital Appreciation							
2002 Series E	2030	4.2%-5.1%	29,999,529	46,304,668	718,922	36,263,296	10,760,294
2002 Series G	2032	4.6%-6.9%	19,997,739	26,854,425	1,427,691	-	28,282,116
Subtotal			<u>49,997,268</u>	<u>73,159,093</u>	<u>2,146,613</u>	<u>36,263,296</u>	<u>39,042,410</u>
Total General Obligation Bonds			<u>\$ 898,763,356</u>	<u>\$ 679,895,483</u>	<u>\$ 151,691,613</u>	<u>\$ 153,896,940</u>	<u>\$ 677,690,156</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2015	\$ 20,335,070	\$ 29,578,508	\$ 49,913,578
2016	20,793,043	28,616,971	49,410,014
2017	22,354,642	28,726,096	51,080,738
2018	24,028,164	28,055,262	52,083,426
2019	26,182,851	27,977,191	54,160,042
2020-2024	165,173,775	118,188,098	283,361,873
2025-2029	171,092,651	74,737,326	245,829,977
2030-2034	101,886,759	55,594,248	157,481,007
2035-2039	79,020,000	17,586,521	96,606,521
2040-2043	33,505,000	2,679,338	36,184,338
Subtotal	664,371,955	\$ 411,739,559	\$ 1,076,111,514
Accretion to date	13,318,201		
Total	<u>\$ 677,690,156</u>		

Current Year Refunding

On July 11, 2013, the District issued \$88,145,000 in General Obligation Bonds with interest rates ranging from three to five percent to refund \$55,635,000 of outstanding 2002 Series C bonds and \$36,263,296 of outstanding 2002 Series E bonds. The net proceeds of \$93,736,506 (after payment of \$812,078 in costs of issuance) were used to redeem the refunded bonds at 102% of the principal amount. This current refunding reduced the District's total debt service payments over the next 15 years by \$7,740,824 with an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,028,164.

On June 4, 2014, the District issued \$41,400,000 in General Obligation Bonds with interest rates ranging from two to five percent to refund \$41,850,000 of outstanding 2002 Series F bonds. The net proceeds of \$43,699,993 (after payment of \$647,838 in costs of issuance) were used to redeem the refunded bonds at 102% of the principal amount. This current refunding reduced the District's total debt service payments over the next 20 years by \$7,561,803 with an economic gain of \$5,521,737.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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		Bonds Outstanding June 30, 2014
			Outstanding July 1, 2013	Redeemed	
2036	5.18%-5.32%	\$ 32,050,000	\$ 31,125,000	\$ 330,000	\$ 30,795,000

Debt Service Requirements to Maturity

The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 390,000	\$ 1,632,505	\$ 2,022,505
2016	450,000	1,612,303	2,062,303
2017	515,000	1,588,993	2,103,993
2018	580,000	1,562,316	2,142,316
2019	655,000	1,532,272	2,187,272
2020-2024	4,535,000	7,065,114	11,600,114
2025-2029	7,220,000	5,593,980	12,813,980
2030-2034	10,840,000	3,310,902	14,150,902
2035-2036	5,610,000	452,998	6,062,998
Total	\$ 30,795,000	\$ 24,351,383	\$ 55,146,383

Accumulated Compensated Absences (Vacation)

The long-term portion of compensated absences (vacation) for the District at June 30, 2014, amounted to \$3,026,080.

Supplemental Early Retirement Plan (SERP)

In 2011-2012, the District entered into a contract to offer early retirement incentives to some of its employees. The District provides a supplemental early retirement plan in premium annuity contracts with United of Omaha. The contracts are payable at \$1,076,485 annually through 2016.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Stores inventories	159,435	-	-	-	159,435
Prepaid expenditures	1,521,895	-	-	-	1,521,895
Total Nonspendable	1,683,830	-	-	-	1,683,830
Restricted					
Legally restricted	4,874,682	-	-	-	4,874,682
Capital projects	-	111,700,485	-	17,537,635	129,238,120
Debt services	-	-	31,838,283	-	31,838,283
Total Restricted	4,874,682	111,700,485	31,838,283	17,537,635	165,951,085
Committed					
Adult education program	-	-	-	207,861	207,861
Deferred maintenance	-	-	-	400,320	400,320
Postemployment benefits	-	-	-	2,468,365	2,468,365
Total Committed	-	-	-	3,076,546	3,076,546
Assigned					
Capital projects	-	-	-	1,558	1,558
Unassigned					
Reserve for economic uncertainties	12,206,443	-	-	-	12,206,443
Remaining unassigned	26,792,080	-	-	-	26,792,080
Total Unassigned	38,998,523	-	-	-	38,998,523
Total	\$ 45,557,035	\$ 111,700,485	\$ 31,838,283	\$ 20,615,739	\$ 209,711,542

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Post Employment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the East Side Union High School District. The Plan provides medical insurance benefits to eligible retirees. Benefits currently are offered to employees who attain age 55 with at least 20 years of service. For grandfathered employees, benefits are offered for lifetime. Whereas, under the new plan agreements, which cover the majority of the plan beneficiaries, benefits are offered until age 65. Classified employees who retired before July 1, 1994 and other employees who retired before September 1, 1990 receive spousal benefits. Members of the Plan, based on actuarial information, consists of 493 retirees and beneficiaries currently receiving benefits and 1,269 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the East Side Teacher Association (ESTA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund as determined annually through the agreements between the District, ESTA, and CSEA. In the current year the District's contribution was only in the form of a pay-as-you-go in the amount of \$5,277,367.

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 thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset to the Plan:

Annual required contribution	\$ 3,516,227
Interest on OPEB asset	(864,464)
Adjustment to annual required contribution	1,387,360
Annual OPEB cost	<u>4,039,123</u>
Contributions made	<u>(5,277,367)</u>
Increase in net OPEB asset	1,238,244
Net OPEB asset, beginning of year	<u>23,473,983</u>
Net OPEB asset, end of year	<u><u>\$ 24,712,227</u></u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Year Ended June 30,	Amount Contributed	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
2014	\$ 5,277,367	\$ 4,039,123	131%	\$ 24,712,227
2013	5,763,422	4,023,954	143%	23,473,983
2012	5,893,200	4,576,907	129%	21,734,515
2011	5,164,563	4,569,074	113%	20,418,222
2010	3,055,501	3,666,940	83%	19,822,733
2009	3,431,863	3,404,937	101%	20,434,172

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2012	\$ 26,861,167	\$ 55,163,201	\$ 28,302,034	48.69%	\$ 136,675,675	21%

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, 2012 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 7.5 percent to an ultimate 5.5 percent. The UAAL is being amortized as a level dollar of payroll. The remaining amortization period at June 30, 2014, was 25 years on a closed basis. As of June 30, 2014, the Retiree Benefit Trust Fund held net position in the amount of \$28,179,981, all of which were invested with the Self Insured Schools of California (SISC) GASB Statement No. 45 *Trust*, in which the majority of the amounts are invested in mutual funds.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 12 - 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, 2014, 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 2014, 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, 2012 to June 30, 2014:

	<u>Health Benefits</u>
Liability Balance, July 1, 2012	\$ 1,079,037
Claims and changes in estimates	10,578,187
Claim payments	<u>(10,038,256)</u>
Liability Balance, June 30, 2013	1,618,968
Claims and changes in estimates	8,646,187
Claim payments	<u>(8,906,412)</u>
Liability Balance, June 30, 2014	<u>1,358,743</u>
Assets available to pay claims at June 30, 2014	<u><u>\$ 8,300,101</u></u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$8,477,116, \$8,001,780, and \$8,389,551, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$3,151,189, \$3,124,966, and \$2,977,235, respectively, and equal 100 percent of the required contributions for each year.

Social Security

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 CalPERS, 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 \$5,644,087, \$5,020,000, and \$4,944,305 (5.541, 4.855 and 4.267 percent of annual payroll) for the years ending June 30, 2014, 2013 and 2012, 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 14 - 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 (SCCSIG) 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

During the year ended June 30, 2014, the District made payments of \$1,191,665 and \$2,661,928 to North California Regional Liability Excess Fund and Santa Clara County Schools Insurance Group, respectively. Payments to the Metropolitan Education District were transferred to them directly from the County Office of Education.

NOTE 15 - 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, 2014.

Litigation

In October 2014, the District's Governing Board ratified and approved a settlement regarding 2008 Measure E in the all inclusive amount of \$255,000. Besides the above mentioned settlement, 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, 2014.

Construction Commitments

As of June 30, 2014, the District had construction commitments in the amount of \$18,899,861.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. Under the provisions of GASB Statement No. 65, deferred issuance costs are now considered to be period expenses and are no longer deferred and amortized. As a result, the deferred issuance costs as of June 30, 2013 of \$10,977,143 have been offset against beginning net position in the government-wide financial statements as follows:

Statement of Net Position	Governmental Activities
Net Position - Beginning	\$ 107,343,123
Restatement/cost of issuance	(10,977,143)
Net Position - Beginning as Restated	<u>\$ 96,365,980</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST SIDE UNION HIGH SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances
	Original	Final		Final to Actual
REVENUES				
Local control funding formula	\$ 143,903,375	\$ 179,139,837	\$ 179,468,109	\$ 328,272
Federal sources	11,285,566	11,340,923	11,344,522	3,599
Other State sources	33,346,181	13,283,068	13,416,816	133,748
Other local sources	9,276,731	10,112,996	10,011,785	(101,211)
Total Revenues¹	197,811,853	213,876,824	214,241,232	364,408
EXPENDITURES				
Current				
Certificated salaries	98,515,921	104,345,831	104,559,960	(214,129)
Classified salaries	25,280,947	26,900,259	26,917,458	(17,199)
Employee benefits	53,860,676	54,115,507	53,877,356	238,151
Books and supplies	4,827,172	6,456,366	6,208,726	247,640
Services and operating expenditures	16,867,569	18,583,595	18,331,476	252,119
Other outgo	1,797,331	3,576,573	3,531,924	44,649
Capital outlay	34,362	737,406	731,091	6,315
Debt service - principal	-	330,000	330,000	-
Debt service - interest	-	1,649,599	1,649,599	-
Total Expenditures¹	201,183,978	216,695,136	216,137,590	557,546
Deficiency of Revenues				
Over Expenditures	(3,372,125)	(2,818,312)	(1,896,358)	921,954
Other Financing Sources (Uses):				
Transfers in	2,000,000	-	6,903,132	6,903,132
Transfers out	(100,000)	(500,000)	(516,364)	(16,364)
Net Financing Sources (Uses)¹	1,900,000	(500,000)	6,386,768	6,886,768
NET CHANGE IN FUND BALANCE	(1,472,125)	(3,318,312)	4,490,410	7,808,722
Fund Balance - Beginning	28,860,182	28,860,182	28,860,182	-
Fund Balance - Ending	\$ 27,388,057	\$ 25,541,870	33,350,592	\$ 7,808,722
Special Reserve - Other				
Than Capital Outlay Projects			12,206,443	
Fund Balance - Ending - GAAP			\$ 45,557,035	

¹ On behalf payments of \$5,644,087 are not included in the actual or budgeted revenues and expenditures. In addition, the Special Reserve Fund for Other Than Capital Outlay Projects revenues, expenditures and other financing sources and uses are excluded from this schedule.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF OTHER POST EMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2012	\$ 26,861,167	\$ 55,163,201	\$ 28,302,034	48.69%	\$ 136,675,675	21%
July 1, 2010	27,223,353	65,140,176	37,916,823	41.79%	131,629,079	29%
May 1, 2008	-	38,870,849	38,870,849	0.00%	157,647,780	25%

SUPPLEMENTARY INFORMATION

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through		Federal Expenditures
	Federal CFDA Number	Entity Identifying Number	
U.S. DEPARTMENT OF EDUCATION			
Direct Grants:			
Title IV, Smaller Learning Communities	84.215L	2	\$ 73,835
Promoting Readiness of Minors in Supplemental Security	84.418P	2	58,018
Passed-Through California Department of Education:			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	3,880,528
Title I, Part C, Migrant Education	84.011	14326	209,016
Title II, Part A, Teacher Quality	84.367	14341	844,290
Title II, Part A, Administrator Training	84.367	14344	2,350
Title III, Limited English Proficiency	84.365	14346	168,671
Title III, Immigrant Education Program	84.365	15146	9,941
Advance Placement Test Fee Reimbursement Program	84.330B	14831	181,062
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	3,729,423
California Preschool Instructional Network	84.173A	14530	2,959
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	41,361
Workability II, Transition Partnership	84.158	10006	383,565
Carl Perkins Act:			
Technology Secondary II C, Section 131	84.048	14894	596,533
Postsecondary and Adult Section 132	84.048	14893	17,141
Adult Education Act:			
Adult Secondary Education	84.002	13978	178,010
Adult Basic Education and English as Second Language	84.002A	14508	492,814
Total U.S. Department of Education			<u>10,869,517</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through California Department of Education:			
Child Development Act:			
Head Start	93.600	10016	74,733
Medi-Cal Billing Option	93.778	10013	406,985
Federal Child Care, Center-Based	93.575	15136	502,167
Refugee Children Supplemental Assistance Program	93.576	24791	221,012
Total U.S. Department of Health and Human Services			<u>1,204,897</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, 2014**

U.S. DEPARTMENT OF AGRICULTURE

Passed-Through California Department of Education:

Child Nutrition Act:

Basic Breakfast	10.553	13525	71,932
Needy Breakfast	10.553	13390	1,031,419
National School Lunch	10.555	13523	2,455,594
Meal Supplement	10.556	13568	53,912
Commodity Supplemental Food Program ¹	10.555	13534	190,007
Total U.S. Department of Agriculture			<u>3,802,864</u>

U.S. DEPARTMENT OF DEFENSE

Direct Grants:

Junior Reserve Officer Training Corp; JROTC	12.357	²	<u>520,791</u>
Total U.S. Department of Defense			<u>520,791</u>
Total Expenditures of Federal Award			<u>\$ 16,398,069</u>

¹ Not recorded in the financial statements.

² These grants are direct grants. No pass-through entity identifying numbers are available.

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

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 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>
J. Manual Herrera	President	2014
Van Le	Vice President	2014
Magdalena Carrasco	Clerk	2016
Frank Biehl	Member	2014
Lan Nguyen	Member	2016

ADMINISTRATION

Chris D. Funk	Superintendent
Marcus Battle	Associate Superintendent of Business Services
Juan Cruz	Assistant Superintendent of Instructional Services
Cari Vaeth	Director 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, 2014**

	Final Report	
	Second Period Report	Annual Report
Ninth Through Twelfth		
Regular ADA	22,270.09	22,108.12
Extended Year Special Education	51.48	51.48
Special Education, Nonpublic, Nonsectarian Schools	44.57	49.07
Extended Year Special Education, Nonpublic, Nonsectarian Schools	4.98	4.98
Total ADA	<u>22,371.12</u>	<u>22,213.65</u>

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2014**

Grade Level	1986-87 Minutes Requirement	Reduced	2013-14 Actual Minutes	Number of Days		Status
		1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grade 9	64,800	63,000	65,459	180	Not applicable	Complied
Grade 10	64,800	63,000	64,875	180	Not applicable	Complied
Grade 11	64,800	63,000	64,875	180	Not applicable	Complied
Grade 12	64,800	63,000	64,875	180	Not applicable	Complied

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, 2014

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

	General Fund	Special Reserve Other	Building Fund
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE			
Balance, June 30, 2014,			
Unaudited Actuals	\$ 33,350,592	\$ 12,206,443	\$ 112,133,263
To conform with GASB Statement No. 54, the District consolidated Fund 17, Special Reserve Fund for Other Than Capital Outlay into General Fund.	12,206,443	(12,206,443)	-
Increase in Accounts Payable	-	-	(432,778)
Balance, June 30, 2014, Audited Financial Statements	<u>\$ 45,557,035</u>	<u>\$ -</u>	<u>\$ 111,700,485</u>

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted 2015 ¹	Actual 2014	Actual 2013	Actual 2012
GENERAL FUND ⁴				
Revenues	\$ 221,462,042	\$ 214,241,232	\$ 195,926,663	\$ 198,476,177
Other sources	-	6,903,132	1,000,000	2,262,671
Total Revenues and Other Sources	221,462,042	221,144,364	196,926,663	200,738,848
Expenditures	234,292,000	216,137,590	194,932,926	196,186,959
Other uses and transfers out	600,000	516,364	738,165	2,924,212
Total Expenditures and Other Uses	234,892,000	216,653,954	195,671,091	199,111,171
INCREASE (DECREASE) IN FUND BALANCE	\$ (13,429,958)	\$ 4,490,410	\$ 1,255,572	\$ 1,627,677
ENDING FUND BALANCE	\$ 19,920,634	\$ 33,350,592	\$ 28,860,182	\$ 27,604,610
AVAILABLE RESERVES ²	\$ 31,441,374	\$ 38,998,523	\$ 37,370,345	\$ 36,884,533
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	13.39%	18.00%	19.10%	18.52%
LONG-TERM OBLIGATIONS	\$ 719,964,284	\$ 743,736,709	\$ 738,538,122	\$ 771,645,165
AVERAGE DAILY ATTENDANCE AT P-2	22,448	22,371	22,524	22,816

The General Fund balance has increased by \$5,745,982 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$13,429,958. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the past three years, but anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have decreased by \$27,908,456 over the past two years.

Average daily attendance has decreased by 445 over the past two years. An increase of 77 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 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 On behalf payments of \$5,644,087, \$5,020,000, and \$4,944,305 for 2014, 2013 and 2012 have been excluded from actual amounts reported above and the calculation of available reserves percentage for fiscal years ending June 30, 2014, 2013, and 2012 respectively.

⁴ 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, 2014

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
KIPP San Jose Collegiate	No
Escuela Popular Accelerated Family Learning	No
Escuela Popular/Center for Training and Careers Family Learning	No
Latino College Preparatory Academy	No
San Jose Conservation Corps Charter	No
Summit Rainier	No
ACE Charter High School	No

See accompanying note to supplementary information.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 358,468	\$ 476,120	\$ 416,162
Receivables	397,508	70,534	583
Total Assets	\$ 755,976	\$ 546,654	\$ 416,745
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 35,553	\$ 9,056	\$ 16,425
Due to other funds	512,562	370,919	-
Unearned revenue	-	166,679	-
Total Liabilities	548,115	546,654	16,425
Fund Balances:			
Restricted	-	-	-
Committed	207,861	-	400,320
Assigned	-	-	-
Total Fund Balances	207,861	-	400,320
Total Liabilities and Fund Balances	\$ 755,976	\$ 546,654	\$ 416,745

See accompanying note to supplementary information.

Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
\$ 2,462,518	\$ 6,023,500	\$ 11,507,209	\$ 1,556	\$ 21,245,533
5,847	5,846	11,297	2	491,617
<u>\$ 2,468,365</u>	<u>\$ 6,029,346</u>	<u>\$ 11,518,506</u>	<u>\$ 1,558</u>	<u>\$ 21,737,150</u>
\$ -	\$ 10,217	\$ -	\$ -	\$ 71,251
-	-	-	-	883,481
-	-	-	-	166,679
-	10,217	-	-	1,121,411
-	6,019,129	11,518,506	-	17,537,635
2,468,365	-	-	-	3,076,546
-	-	-	1,558	1,558
<u>2,468,365</u>	<u>6,019,129</u>	<u>11,518,506</u>	<u>1,558</u>	<u>20,615,739</u>
<u>\$ 2,468,365</u>	<u>\$ 6,029,346</u>	<u>\$ 11,518,506</u>	<u>\$ 1,558</u>	<u>\$ 21,737,150</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ 670,824	\$ 579,859	\$ -
Other State sources	325,949	798,947	-
Other local sources	900	40,463	1,306
Total Revenues	<u>997,673</u>	<u>1,419,269</u>	<u>1,306</u>
EXPENDITURES			
Current			
Instruction	219,495	1,221,014	-
Instruction-related activities:			
Supervision of instruction	389,869	563	-
Instructional library and technology	17,604	-	-
School site administration	287,832	151,288	-
Administration:			
All other administration	15,841	-	-
Maintenance and operations	4,405	46,404	264,178
Facility acquisition and construction	-	-	-
Total Expenditures	<u>935,046</u>	<u>1,419,269</u>	<u>264,178</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>62,627</u>	<u>-</u>	<u>(262,872)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	500,000
Transfers out	(3,403,132)	-	-
Net Financing Sources (Uses)	<u>(3,403,132)</u>	<u>-</u>	<u>500,000</u>
NET CHANGE IN FUND BALANCES	(3,340,505)	-	237,128
Fund Balance - Beginning	3,548,366	-	163,192
Fund Balance - Ending	<u>\$ 207,861</u>	<u>\$ -</u>	<u>\$ 400,320</u>

See accompanying note to supplementary information.

Special Reserve Fund for Postemployment Benefits	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,250,683
-	-	-	-	1,124,896
24,409	2,478,453	50,920	7	2,596,458
<u>24,409</u>	<u>2,478,453</u>	<u>50,920</u>	<u>7</u>	<u>4,972,037</u>
-	-	-	-	1,440,509
-	-	-	-	390,432
-	-	-	-	17,604
-	-	-	-	439,120
-	-	-	-	15,841
-	237,171	-	-	552,158
-	532,915	235,437	-	768,352
-	<u>770,086</u>	<u>235,437</u>	-	<u>3,624,016</u>
<u>24,409</u>	<u>1,708,367</u>	<u>(184,517)</u>	<u>7</u>	<u>1,348,021</u>
-	-	-	-	500,000
<u>(3,500,000)</u>	-	-	-	<u>(6,903,132)</u>
<u>(3,500,000)</u>	-	-	-	<u>(6,403,132)</u>
(3,475,591)	1,708,367	(184,517)	7	(5,055,111)
5,943,956	4,310,762	11,703,023	1,551	25,670,850
<u>\$ 2,468,365</u>	<u>\$ 6,019,129</u>	<u>\$ 11,518,506</u>	<u>\$ 1,558</u>	<u>\$ 20,615,739</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Local Education Agency Organization Structure

This schedule provides information about the District's schools operated, 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 of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

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.

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 Unaudited Actual Financial Report, to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying 3 past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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

The Combining Non-Major Governmental Funds 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.

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 (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise East Side Union High School District's basic financial statements, and have issued our report thereon dated December 2, 2014.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, the District has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

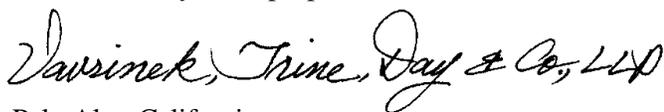
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

Compliance and Other Matters

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

Purpose of This Report

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



Palo Alto, California
December 2, 2014



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

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of East Side Union High School District's (the District) major federal programs for the year ended June 30, 2014. 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

Report on Internal Control Over Compliance

Management of East Side Union High School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered East Side Union High School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Side Union High School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.



Palo Alto, California
December 2, 2014



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 *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* 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, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about East Side Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of East Side Union High School District's compliance with those requirements.

Unmodified Opinion on Each of the State Programs Listed Below

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, 2014.

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 in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Not applicable
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
Non Classroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not applicable
Annual Instruction Minutes Classroom-Based	4	Not applicable
Charter School Facility Grant Program	1	Not applicable

We did not perform testing for California Clean Energy Jobs Act because the grant amount has not been spent as of June 30, 2014.

Vassinek, Trine, Day & Co., LLP

Palo Alto, California
December 2, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<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 Circular A-133, Section .510(a)	<u>No</u>
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
	<u>Basic Grant Low-Income and Neglected</u>
	<u>Title II, Part A</u>
<u>84.367</u>	<u>Teacher Quality and Administrator Training</u>
<u>84.002, 84.002A</u>	<u>Adult Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 491,942</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

2013-1 Code 72000

School Accountability Report Card (SARC)

Finding

SARC disclosures concerning school facility conditions and the "good repair status" of facilities should use the most recent available Facility Inspection Tool (FIT) when the SARC is prepared. The year and month in which the data were collected should also be identified.

The school facility conditions are rated in nine separate categories. During our testing, we noted that for the sample sites selected, variances existed in the ratings between what was shown on the FIT versus what was reported in the SARC.

Information pertaining to school facility conditions as reported in the SARC was not supported by the FIT, which was not in accordance with the *California Education Code*.

Recommendation

The District should ensure coordination between those that prepare the FIT with those that prepare the SARC such that there will be no variances reported between the two documents.

Current Status

Implemented