

**MEETING AGENDA**  
**Board Audit Committee**  
6:00 PM  
December 2, 2014  
Superintendent's Conference Room  
East Side Union High School District Education Center  
830 North Capitol Avenue  
San Jose, CA 95133-1398

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

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

**2. Introductions**

**3. Adopt Agenda**

**4. Special Order of Business**

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

**5. Public Comments**

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

**6. Approval of Minutes**

**Action:** Minutes from the August 27, 2014, meeting will be presented for approval.

**Chair / Vice Chair**

**7. Discussion/Action: Updates**

Magdalena Carrasco, Chair, and Frank Biehl, Vice Chair, will provide updates to the Committee as necessary.

**Senior Manager of Internal Controls**

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

Kelly Kwong, Senior Manager of Internal Controls, will provide an update. Administrative Bulletin No. 09 Physical Inventory ASB, which was approved on September 9, 2014, will be provided.

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

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

## **External Auditor**

### **10. Discussion/Action: Update by External Auditor regarding the Annual Audit 2013-2014**

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present a draft unaudited actual financial report for the fiscal year 2013-2014.

### **11. Discussion/Action: Update by External Auditor regarding the SARC FIT Reports**

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the final resolution of which Facility Inspection Tool (FIT) report takes precedence for the School Accountability Report Card (SARC), either the District's or Santa Clara County Office of Education's FIT version.

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

### **12. Discussion/Action: Oak Grove High School Band Boosters Request for Bingo Fundraiser**

Marcus Battle, Associate Superintendent of Business Services, will seek discussion and recommendations on Oak Grove High School Band Boosters request to host bingo as an ongoing fundraiser on District property.

### **13. Discussion/Action: Business and Non-instructional Operations Board Policies 3000 Series**

Marcus Battle, Associate Superintendent of Business Services, will present a status update on the new, amended and deleted 3000 – Business and Non-instructional Operations Board Policy Series.

## **Audit Committee Business**

### **14. Discussion/Action: Audit Committee Members Terms**

Audit Committee will review the Members terms in accordance to the Audit Committee Charter.

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

Audit Committee will schedule the next meeting date and time.

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

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

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

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

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

### **19. Adjournment**

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## Minutes of Meeting

### Unapproved

#### Board Audit Committee

August 27, 2014

6:00 PM

East Side Union High School District  
Education Center

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

**Item 6**

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

*The meeting was called to order at 6:04 PM by Chair Carrasco.*

*Committee present:*

*Chair Carrasco, Vice Chair Biehl, Member Berg, Member Juchau, Member Reinke, and alternate Member Phan.*

*Staff present:*

- *Chris Funk*
- *Marcus Battle*
- *Kelly Kwong*
- *Karen Poon*
- *Linda da Silva*
- *Andre Bell*
- *Mary Guillen*

*Presenter present:*

- *Joyce Peters, External Auditor - VTD*

#### 2. Introductions

*Chair Carrasco welcomed the Committee to the meeting. Each person present at the meeting introduced him/herself at the meeting.*

#### 3. Adopt Agenda

*Motion by Member Reinke, second by Member Berg, to adopt the agenda as presented.*

*Vote: 5/0*

**4. Special Order of Business**

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

*Kelly Kwong requested that item #11 be heard after #14.*

**5. Public Comments**

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

*There were no public speakers.*

**6. Approval of Minutes**

**Action:** Minutes from the March 12, 2014, meeting will be presented for approval.

*Motion by Member Juchau, second by Vice Chair Biehl, to approve the Board Audit Committee Minutes of March 12, 2014.*

*Vote: 5/0*

**Chair / Vice Chair**

**7. Discussion/Action: Updates - Magdalena Carrasco, Chair, and Frank Biehl, Vice Chair**

*No updates were presented under this item.*

**Senior Manager of Internal Controls**

**8. Discussion/Action: Status on Senior Manager of Internal Controls' Work Plan and Findings**

*Kelly Kwong, Senior Manager of Internal Controls, provided the Committee an update on the items on her Work Plan and findings.*

ASB training and development (key focus)

*Training continues with the School Finance Clerks. They meet on monthly basis. Phase two of the training included coaches, advisors and students. It was well received.*

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

Kelly Kwong, Senior Manager of Internal Controls, will provide a draft of the new Administrative Bulletin on ASB Physical Inventory.

*A draft Administrative Bulletin was shared with the Committee. It is intended as guide for performing physical inventory. The draft was presented to the School Finance Clerks. The process was piloted at four schools. As a result of the pilot, changes were made to the draft in order for the Bulletin to effectively work for a wider audience. The draft was presented to Superintendent's Council and is now being presented to the Audit Committee for input. It will be presented to Cabinet at their next meeting.*

*Member Berg asked that CSEA be approached to make sure that process is not a transfer of duties.*

*Motion by Vice Chair Biehl to approve the draft Administrative Bulletin as presented and that the Bulletin be brought back in a year for further review. It will be implemented within the framework/context of the current collective bargaining agreements between the District and the Associations (CSEA, ESTA, & AFT).*

*Vote: 5/0*

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

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

*There have been no reports of fraud, waste or abuse to-date. The system has been tested is and is active.*

**11. Discussion/Action: Authorized Signature Matrix**

Kelly Kwong, Senior Manager of Internal Controls, will present an authorized signers matrix.

*Kelly shared with the Committee an authorized signers matrix, which details who has authority to sign specific items, including the procedural steps and to the order of required signers. The matrix also identifies who has capital and non-capital signer authority, as well*

*as who has delegation of authority. It is aligned with the Board approved signature authority resolution.*

*The District is good checks and balances in place. There are always two signers.*

*Vice Chair Biehl suggested that the next time the Board has to adopt a signature authority resolution, that the matrix be attached to the resolution.*

### **External Auditor**

- 12. Discussion/Action: Update by External Auditor regarding the Annual Audit 2013-2014**  
Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present an update.

*External Auditor Joyce Peters shared the following:*

#### **ASB School Inventory**

*Kelly Kwong has addressed this item by developing a procedural bulletin on ASB physical inventory.*

#### **Attendance Accounting**

*The issue is that attendance was not being taken by some of the teachers. A visit was made over the summer and it was determined that the issue has been corrected. The sites responded quickly and corrected the issue.*

#### **SARC Reports**

*Decile 1, 2, 3 schools require a third party to issue a report on behalf of the Santa Clara County Office of Education. The Facilities Inspection Report (FIT) for decile 1, 2, 3 schools was not the same as the County's third party report. The District was using its own report. VTD asked CDE which form has precedence; they were unable to confirm and directed VTD to obtain an opinion from District's Legal Counsel as to which report has precedence.*

*Member Biehl asked for report on what was done regarding this issue; who has responsibility for this issue and what is the outcome, including which report has precedence.*

**Superintendent / Associate Superintendent of Business Services**

**13. Discussion/Action: Bond Performance Audit**

Marcus Battle, Associate Superintendent of Business Services, and Andre Bell, Assistant Director of Capital Accounting, will present a status update on action items and responses to the recommendations from the Bond Performance Audit by Total School Solutions issued September 2013.

*Associate Superintendent indicated that the audit performed by Total School Solutions had a total of 32 recommendations. They have been working diligently to address each of the recommendations. A total of 30 recommendations have been implemented, with the exception of 2 that require no action.*

*Assistant Director Bell discussed the actions taken on the 13 outstanding recommendations.*

*Five of the recommendations were implemented based upon the new capital financial reporting system. Financial information is accurately reported on the Bond Program. Two had to do with the master schedule, one with an administrative posting, and two with the capital construction manual, which is being completed and revised. There were two that had to do with change orders, which is on the agenda for discussion. Necessary steps have been taken with the change orders. The other is the owner allowance, which has been approved by the Board.*

*As for Capital Accounting Department, which was approved by the Board last year, there are three staff members in the department. A financial accounting system was found that takes all the data from the conception of the Bond Program and puts it into a system where it accounts for all expenditures. The system is functional and not labor intensive. Once a month, data from our current financial system is downloaded and sent to California Financial System for direct uploading into their system, which is uploaded within a week. It is a robust and outstanding system.*

**14. Discussion/Action: Contract Change Order**

Linda da Silva, Director of Construction, Maintenance and Facilities, and Andre Bell, Assistant Director of Capital Accounting, will provide an update on the Board Policy 3312.1 Contract Change Orders, Board adopted May 15, 2014, related to contracts for Professional Services, Bond/Capital Projects and modifications to purchase orders. This is a follow-up to the Audit Committee recommendations adopted under item #15 at the March 12, 2014, meeting.

*Director da Silva updated the Board on Board Policy #3312.1 Contract Change Orders. It was presented for first reading to the Board at their April, 2014, Board Meeting. It was then presented to the Board in May, 2014, for second reading and adoption. A copy of adopted Board Policy #3312.1 Contract Change Orders was shared with the Audit Committee.*

*It was also mentioned that the delegation of authority has helped to not cause delays with projects. Anything that exceeds the limit goes to the Board for approval.*

**15. Discussion/Action: Coaches Code of Conduct**

Marcus Battle, Associate Superintendent of Business Services, will provide a summary of the new procedures for athletic coaches regarding code of conduct sign off.

*Associate Superintendent Battle shared with the Committee a copy of Human Resources' code of conduct for athletic coaches. The code of conduct information was taken from California Interscholastic Federation (CIF) guidelines. As part of the hiring process, Human Resources provides the document to all coaches to read and sign that they understand and will adhere to the guidelines as set forth in the code of conduct.*

**Audit Committee Business**

**16. Discussion/Action Future Meetings**

Audit Committee will schedule the next meeting dates and time.

*The next meeting will be held on December 2, 2014, at 6 PM in Superintendent's/Board's Conference Room of the East Side Union High School District.*

**17. Superintendent Communications/Comments**

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

*No item(s) to report under this section*



**18. Audit Committee Member Comments**

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

*No items reported under this section*

**19. Future Agenda Items**

*Report on copiers – cost savings (Spring 2015)*

**20. Adjournment**

*Chair Carrasco adjourned the meeting at 7:39 p.m.*

*Respectfully submitted,*

*Magdalena Carrasco, Board Audit Committee Chair*

East Side Union High School District

No. 009

Effective Date: 09/09/14

**Business Services Division – Finance****Business and Non Instructional: Physical Inventory ASB (Associated Student Body)**

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**A. PURPOSE**

1. Associated Student Body (ASB) student store is a fund-raising mechanism and usually operated and sponsored by students. Student store usually sells items that students use during the school day, such as pencils, paper, and items that have the school logo such as gym clothes and sweatshirts. Student stores raise money for the student organizations and provide a convenient service for students.
2. Guidelines and procedures will need to be developed regarding how revenues from the store are allocated, budgeted and spent. These decisions must be documented in each school's ASB's internal procedures or meeting minutes.
3. On a daily basis, the Finance Clerk and students are selling merchandise. Therefore, it is important to check the inventory levels to ensure completeness of sales and accuracy of inventory levels. The purpose of taking a physical inventory is to verify the physical existence of the inventory that appears in the records and to check the accuracy of the inventory control system.

**B. INVENTORY COUNT FREQUENCY AND EXECUTION**

1. At least two times a fiscal year, two counters (either two students or one student and one employee) must count the inventory and record counts on the *ASB Store Physical Inventory Count Form Report*, Attachment A. The two completed physical inventory counts must be evenly spaced within one fiscal year beginning July 1<sup>st</sup> and ending June 30<sup>th</sup>.

Assignment of student counter must rotate such that one specific student counts in alternating physical counts and does not count in a successive physical count. Request for student assistance must not conflict with course work or academic performance and must be reasonable and voluntary.

2. For checks and balance and segregation of duties purposes, employees who have custody of the inventory must not perform the physical inventory count. In addition, Finance Clerks who have recordkeeping responsibilities and possibly custody of the inventory must not perform the physical inventory count due to lack of independence.
3. After the count is complete, 2 counters must sign and date and provide the completed *ASB Student Store Physical Inventory Count Form Report*, Attachment A, to the ASB Activities Director (or Administration designee) for reconciliation against

the inventory quantity stated in the ASB Accounting System maintained by the Finance Clerk.

### **C. RECONCILIATION AND RESOLUTION**

1. ASB Activities Director (or Administration designee) is responsible for noting any differences between quantities determined by the 2 counters physical inspection and the quantity shown in the ASB Accounting System as provided by the Finance Clerk.

The reconciliation must be performed immediately after the physical count before there is any inventory movement or transactions that could interfere with the reconciliation.

The ASB Activities Director (or Administration designee) and Finance Clerk must come to an agreement of the results and conclusion. If needed, the Principal or District Business Office should be consulted if there is any disagreement.

2. The results of the physical inventory must be presented to the student council and voted to determine any action on items, such as writing off items that have been lost, stolen or discarded and also for adding unrecorded items.
3. After items are voted on, resolution must be documented in the student ASB meeting minutes. The standard three required approval signatures (student, certificated advisor and Activities Director or Administration designee) will authorize the Finance Clerk to adjust the records in the ASB Accounting System.
4. Finance Clerk must record adjustments into the ASB Accounting System depending on the direction of student council meeting minutes.
5. School Site Administrator must sign and date each *ASB Store Physical Inventory Count Form Report, Attachment A*, on a timely basis and no later than 30 calendar days from the initial student physical count date.
6. Finance Clerk is responsible for maintaining the completed and signed *ASB Store Physical Inventory Count Form Reports* on file and must have it available upon request from the internal and external auditors. A copy of the report must be provided to the District Business Office.

### **D. ACCOUNTING AND MAINTAINING A PERPETUAL INVENTORY RECORD**

1. Procedures need to be established to ensure that the perpetual inventory record is maintained at every transaction in the ASB Accounting System.
  - a) Beginning + purchases – sales – transparent complimentary = ending
  - b) All purchased quantity must be entered into the ASB Accounting System.
  - c) All sales must be entered into the ASB Accounting System by bar code scanning.

- d) The Finance Clerk must provide the student a receipt for every sale transaction. Receipt will ensure the transaction is recorded in the ASB Accounting System.
2. Using the ASB Accounting System, allows for tracking each unit cost and selling price consistently.
- a) Any changes to the selling price must be approved in student ASB meeting minutes.
  - b) The required 3 signatures from student, certificated advisor and Activities Director (or Administration designee) will authorize the Finance Clerk to adjust the selling price in the ASB Accounting System.

**E. STOCK AND PRICING POLICIES**

- 1. ASB Activities Director (or Administration designee) should work with the students to determine the types of items to purchase for the store and an appropriate sales price for each item. Past sales should be evaluated each year to determine any changes in pricing or in items stocked. This is an opportunity for students to learn about retail operations.
- 2. Food and beverage sales cannot compete with the school lunch program. Because of the laws and restrictions related to the sale of food and beverages at K-12 school sites, food and beverage items cannot be sold in the student store. This will ensure compliance with state regulatory code and with the District's goals related to student nutrition.

**F. LOCATION AND SECURITY**

The school bank and inventory/merchandise must be in a secure place. The Administrators must provide a space for the student store with a layout that prevents theft, damage or other loss. Items must be secured during the school day and also when the student store is closed.

**ITEM 10**

**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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JUNE 30, 2014

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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 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 postemployment 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 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 \_\_\_\_\_, 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  
\_\_\_\_\_, 2014

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Preparing every student to thrive in a global society.

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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This section of East Side Union High School District's (District) annual financial report presents our discussion and analysis of the District's 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 Number 34.

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 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

830 N. Capitol Ave. | San Jose, CA 95133 | T 408.347.5000 | F 408.347.5015 | esuhd.org

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

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

- The enrollment reported in the California Basic Educational Data System (CBEDS) decreased 154 to 23,532. P2 average daily attendance (ADA) decreased 292 to 22,371. Because of the decline in enrollment, the District's current year revenue limit funding was based on prior year's ADA net of charter school movement.
- This is the first year that the District received the State Local Control Funding Formula revenues. The net LCFF ADA is \$7,866 with 55.09% unduplicated count percentage of Economic Disadvantage, Foster Youth, Homeless, English Learner & 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 EIA/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 similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account 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 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

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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 nine through twelve 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 it 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

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### THE DISTRICT AS TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in the *Statements 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 \$96.83 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 School 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 OPEB	24,712,227	23,473,983	-	-
Capital assets	606,989,921	592,605,787	-	-
<b>Total Assets</b>	<b>866,738,459</b>	<b>874,117,688</b>	<b>59,446</b>	<b>403,760</b>
Current liabilities	30,862,284	28,236,443	59,446	42,466
Long-term debt	743,736,709	738,538,122	-	-
<b>Total Liabilities</b>	<b>774,598,993</b>	<b>766,774,565</b>	<b>59,446</b>	<b>42,466</b>
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
<b>Total Net Position</b>	<b>\$ 96,808,677</b>	<b>\$ 107,343,123</b>	<b>\$ -</b>	<b>\$ 361,294</b>

# 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 it slightly so you can see our total revenues for the year.

**Table 2**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>				
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
<b>Total Revenues</b>	<b>276,277,111</b>	<b>267,847,774</b>	<b>5,988,535</b>	<b>5,933,183</b>
<b>Expenses</b>				
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	-	-
<b>Total Expenses</b>	<b>275,834,414</b>	<b>263,025,640</b>	<b>6,349,829</b>	<b>6,115,428</b>
<b>Change in Net Position</b>	<b>\$ 442,697</b>	<b>\$ 4,822,134</b>	<b>\$ (361,294)</b>	<b>\$ (182,245)</b>

### Governmental Activities

As reported in the *Statement of Activities* in the audited financial statements, the cost of all of our governmental activities this year was \$263.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenues was only \$224 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with charges for services (\$0.4 million), grants and contributions (\$29.7 million), and capital grants and contributions (\$8.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$132.8 million in taxes, and the remaining in State and Federal funds and with other revenues, like interest and general entitlements.



# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2014**

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In Table 3, we have presented the net cost of each of the District's largest functions - regular program instruction and instruction related services, pupil services, maintenance and operations, administration, interest and other. 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**

	<b><u>2014</u></b>	<b><u>2013</u></b>
Instruction and related services	\$ 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
<b>Totals</b>	<b><u>\$ 250,494,308</u></b>	<b><u>\$ 224,011,755</u></b>

### 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 Local Control Funding Formula 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 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

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### CAPITAL ASSET & DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2014, the District governmental activities had \$607.0 million in a broad range of capital assets, including land, buildings, and furniture and equipment. 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
<b>Totals</b>	<b>\$ 606,989,921</b>	<b>\$ 592,605,787</b>

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

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2014**

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

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

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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### 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 bond	30,795,000	31,125,000
Supplemental Retirement Plan	2,152,970	3,229,455
Accumulated vacation - net	3,026,080	3,416,794
<b>Totals</b>	<b>\$ 743,736,709</b>	<b>\$ 738,538,122</b>

The District's general obligation bond rating is "A+". The State limits the amount of general obligation debt that districts can issue to 1.25 percent of the assessed value of all taxable property within the district's boundaries. The District's outstanding general obligation debt of \$743.7 million is below the statutorily imposed limit.

Other obligations include compensated absences payable, supplemental retirement obligations and equipment loans. 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 UC/CSU 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 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 AP course to take the exam and the correlation between 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 offers free of charge to encourage 10<sup>th</sup> grade students to take the PSAT which prepares 11<sup>th</sup> graders for the SAT and qualify for college scholarships through the National Merit Scholarship Program. In 2013-14 90% of 10<sup>th</sup> 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**

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### **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 lowers the forecast for 2015-16 Local Control Funding Formula (LCFF) funding levels significantly while the STRS (certificated personnel retirement system) employers' rates 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 enrollment to level off or slightly increase. The projected 2014-15 CBEDS enrollment is 23,655, which is 123 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 Chief Financial Officer, Business Services, at East Side Union High School District, 830 North Capitol Avenue, San Jose, California.

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2014

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
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
<b>Total Assets</b>	<b>866,738,459</b>	<b>59,446</b>	<b>866,797,905</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	4,669,211	-	4,669,211
<b>LIABILITIES</b>			
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 liability	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
<b>Total Liabilities</b>	<b>774,598,993</b>	<b>59,446</b>	<b>774,658,439</b>
<b>NET POSITION</b>			
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
<b>Total Net Position</b>	<b>\$ 96,808,677</b>	<b>\$ -</b>	<b>\$ 96,808,677</b>

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
<b>Governmental Activities:</b>				
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	-
Plant services	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	-
<b>Total Governmental Activities</b>	<b>275,834,414</b>	<b>87,257</b>	<b>25,201,929</b>	<b>50,920</b>
<b>Business-Type Activities</b>				
Food services	6,029,654	1,943,845	3,727,195	-
Administration	320,175	103,218	197,913	-
<b>Total Business-Type Activities</b>	<b>6,349,829</b>	<b>2,047,063</b>	<b>3,925,108</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 282,184,243</b>	<b>\$ 2,134,320</b>	<b>\$ 29,127,037</b>	<b>\$ 50,920</b>

General revenues and subventions:

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

**Subtotal, General Revenues**

**Change in Net Position**

- Net Position - Beginning, as restated
- Net Position - Ending

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

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

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$(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)
<u>(250,494,308)</u>	<u>-</u>	<u>(250,494,308)</u>
-	(358,614)	(358,614)
-	(19,044)	(19,044)
-	(377,658)	(377,658)
<u>(250,494,308)</u>	<u>(377,658)</u>	<u>(250,871,966)</u>
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
<u>250,937,005</u>	<u>16,364</u>	<u>250,953,369</u>
442,697	(361,294)	81,403
96,365,980	361,294	96,727,274
<u>\$ 96,808,677</u>	<u>\$ -</u>	<u>\$ 96,808,677</u>



**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2014**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>ASSETS</b>			
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	-	-
<b>Total Assets</b>	<b>\$ 58,768,366</b>	<b>\$ 115,186,119</b>	<b>\$ 31,838,283</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 11,386,428	\$ 3,485,634	\$ -
Due to other funds	-	-	-
Unearned revenue	1,824,903	-	-
<b>Total Liabilities</b>	<b>13,211,331</b>	<b>3,485,634</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	1,683,830	-	-
Restricted	4,874,682	111,700,485	31,838,283
Committed	-	-	-
Assigned	-	-	-
Unassigned	38,998,523	-	-
<b>Total Fund Balances</b>	<b>45,557,035</b>	<b>111,700,485</b>	<b>31,838,283</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 58,768,366</b>	<b>\$ 115,186,119</b>	<b>\$ 31,838,283</b>

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

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<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 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>

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 209,711,542</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 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:	
Bonds payable	677,690,156
Premium	30,072,503
OPEB revenue bonds	30,795,000
Retiree incentive	2,152,970
Compensated absences (vacations)	<u>3,026,080</u> (743,736,709)
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ 96,808,677</u></u></b>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>REVENUES</b>			
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
<b>Total Revenues</b>	<u>219,936,605</u>	<u>524,970</u>	<u>50,843,472</u>
<b>EXPENDITURES</b>			
Current			
Instruction	134,514,161	-	-
Instruction-related activities:			
Supervision of instruction	11,989,551	-	-
Instructional library, media 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	-	-
Plant services	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
<b>Total Expenditures</b>	<u>221,781,677</u>	<u>38,306,396</u>	<u>49,661,709</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(1,845,072)</u>	<u>(37,781,426)</u>	<u>1,181,763</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	6,903,132	-	-
Other sources	-	20,016,391	802,707
Transfers out	(516,364)	-	-
<b>Net Financing Sources (Uses)</b>	<u>6,386,768</u>	<u>20,016,391</u>	<u>802,707</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>4,541,696</u>	<u>(17,765,035)</u>	<u>1,984,470</u>
<b>Fund Balance - Beginning</b>	<u>41,015,339</u>	<u>129,465,520</u>	<u>29,853,813</u>
<b>Fund Balance - Ending</b>	<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.

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<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 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>
<u>(5,055,111)</u>	<u>(16,293,980)</u>
<u>25,670,850</u>	<u>226,005,522</u>
<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**

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**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 (vacations) 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**

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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 due, 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 due. 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>
<b>Change in Net Position - Government-Wide Activities</b>		<b><u>\$ 442,697</u></b>

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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENTS OF NET POSITION  
JUNE 30, 2014**

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

	<b>Business-Type Activities- Cafeteria Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>		
Food sales	\$ 2,047,063	\$ -
Other local revenue	11,544	2,633,752
<b>Total Operating Revenues</b>	<u>2,058,607</u>	<u>2,633,752</u>
<b>OPERATING EXPENSES</b>		
Payroll costs	3,959,998	243
Supplies and materials	2,026,479	86,687
Equipment rental	12,699	431,595
Claims	-	2,965,032
Other operating cost	350,653	40,117
<b>Total Operating Expenses</b>	<u>6,349,829</u>	<u>3,523,674</u>
<b>Operating Loss</b>	<u>(4,291,222)</u>	<u>(889,922)</u>
<b>NONOPERATING REVENUES</b>		
Interest income	3	-
Federal grants	3,612,857	-
State grants	300,704	-
Indistrict contributions	-	3,179,359
Other transfer in	16,364	-
<b>Total Nonoperating Revenues</b>	<u>3,929,928</u>	<u>3,179,359</u>
<b>Change in net position</b>	(361,294)	2,289,437
<b>Total Net Position - Beginning</b>	361,294	4,651,921
<b>Total Net Position - Ending</b>	<u>\$ -</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**

	<b>Business- Type Activities- Cafeteria Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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 facility use	(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>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
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>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	3	-
Net Cash Provided by Investing Activities	<u>3</u>	<u>-</u>
Net decrease 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>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>		
Operating loss	\$ (4,291,222)	\$ (889,922)
Changes in assets and liabilities:		
Other assets	-	(182,689)
Claims liabilities	-	(260,225)
Inventories	(20,284)	-
Prepaid expense	-	(453,478)
Accounts payable	16,980	(57,724)
Account receivables	12,491	379,461
Due to other fund	712,227	-
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<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**

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	<u>Retiree Benefits</u>	<u>Scholarships</u>	<u>Student Bodies</u>
<b>ASSETS</b>			
Deposits and investments	\$ 28,179,981	\$ 720,212	\$ 1,609,081
<b>LIABILITIES</b>			
Due to student groups	-	-	\$ 1,609,081
<b>NET POSITION</b>			
Restricted	<u>\$ 28,179,981</u>	<u>\$ 720,212</u>	

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

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	<u>Retiree Benefits</u>	<u>Scholarships</u>
<b>ADDITIONS</b>		
Transfers in	\$ -	\$ -
Investment income	4,270,381	95,409
<b>Total Additions</b>	<u>4,270,381</u>	<u>95,409</u>
<b>DEDUCTIONS</b>		
Operating expenditures	38,724	-
Scholarships awarded	-	16,889
<b>Total Deductions</b>	<u>38,724</u>	<u>16,889</u>
<b>Change in Net Position</b>	4,231,657	78,520
<b>Net Position - Beginning</b>	23,948,324	641,692
<b>Net Position - Ending</b>	<u>\$ 28,179,981</u>	<u>\$ 720,212</u>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The East Side Union High School District was organized in 1949 under the laws of the State of California. The District operates under a locally-elected five-member 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 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 (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### 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 (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

**Special Reserve Fund for Postemployment Benefits** The Special Reserve Fund for Postemployment Benefits may be used pursuant to *Education Code* Section 42840 to account for amounts the District has committed for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment 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 (*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 *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55), 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 (*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 (*Education Code* Section 42840).

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

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

The District operates trust and agency fund types. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB). 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 service, program, or department 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

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

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

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

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

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

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

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances 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

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### Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. 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

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

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### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources 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 financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary 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 assistant 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**

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### **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, 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

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### 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 amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County 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, 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.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### 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 County Treasury** - 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 (*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
County Pool	201,438,603	201,440,859	1.14
Certificate of Deposits	200,000	200,000	0.17
Total	<u>\$ 230,483,214</u>	<u>\$ 230,485,470</u>	

# 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
County 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 it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (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	Building	Bond Interest and Redemption Fund	Non-major Funds	Total	Proprietary
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
<b>Governmental Activities</b>				
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	\$ 592,605,787	\$ 52,885,476	\$ 38,501,342	\$ 606,989,921

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

<b>Governmental Activities</b>	
Instruction	\$ 14,496,631
Supervision of instruction	1,377,233
Instructional library and media	68,825
School site administration	1,554,945
Home to school transportation	699,467
All other pupil services	1,892,519
Anciliary services	237,995
Community services	3,310
All general administration	1,012,912
Data processing services	373,985
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, nonmajor governmental funds and enterprise funds are as follows:

Due To	Due From General
Non-major Governmental	\$ 883,481
Cafeteria Enterprise	1,624,409
Total	\$ 2,507,890

All balances resulted from the time lag 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:

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

The General Fund transferred to Deferred Maintenance Fund for contribution.	\$ 500,000
Special Reserve Fund for Post Employment Benefit Fund transferred to General Fund to reimburse OPEB and SERP payment.	3,500,000
The General Fund transferred to Cafeteria Fund for contribution.	16,364
The Adult Education Fund transferred to the General Fund for support.	3,403,132
	\$ 7,419,496

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	Building	Non-major Governmental	Total	Proprietary
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	Non-major Governmental	Total
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**

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### 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
Accumulated vacation - net	3,416,794	-	390,714	3,026,080	-
	<u>\$ 738,538,122</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
<b>Current Interest Bond</b>							
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
Sub-Total			<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>
<b>Capital Appreciation</b>							
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
Sub-Total			<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>
<b>Total General Obligation Bonds</b>			<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

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### 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	<u>664,371,955</u>	<u>\$ 411,739,559</u>	<u>\$1,076,111,514</u>
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 current refund \$55,635,000 of outstanding 2002 Series C bonds and \$36,263,296 of 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. The District current refunded the 2002 Series C and D bonds to reduce its 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 three to five percent to current 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**

### OPEB (Other Post Employment Benefit) Revenue Bond

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

The outstanding general obligation bonded debt is as follows:

Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Redeemed	Bonds Outstanding June 30, 2014
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 Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee 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
<b>Nonspendable</b>					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Stores inventories	159,435	-	-	-	159,435
Prepaid expenditures	1,521,895	-	-	-	1,521,895
<b>Total Nonspendable</b>	<b>1,683,830</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,683,830</b>
<b>Restricted</b>					
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
<b>Total Restricted</b>	<b>4,874,682</b>	<b>111,700,485</b>	<b>31,838,283</b>	<b>17,537,635</b>	<b>165,951,085</b>
<b>Committed</b>					
Adult education program	-	-	-	207,861	207,861
Deferred maintenance	-	-	-	400,320	400,320
Postemployment benefits	-	-	-	2,468,365	2,468,365
<b>Total Committed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,076,546</b>	<b>3,076,546</b>
<b>Assigned</b>					
Capital projects	-	-	-	1,558	1,558
<b>Unassigned</b>					
Reserve for economic uncertainties	12,206,443	-	-	-	12,206,443
Remaining unassigned	26,792,080	-	-	-	26,792,080
<b>Total Unassigned</b>	<b>38,998,523</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,998,523</b>
<b>Total</b>	<b>\$ 45,557,035</b>	<b>\$ 111,700,485</b>	<b>\$ 31,838,283</b>	<b>\$ 20,615,739</b>	<b>\$ 209,711,542</b>



# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

#### Plan Description

The Postemployment 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 where as 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. Membership 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 for the Trust.

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

Annual required contribution	\$ 3,516,227
Interest on OPEB asset	(864,464)
Adjustment to annual required contribution	<u>1,387,360</u>
Annual OPEB cost (expense)	4,039,123
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 Liability (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 employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial 7.5 percent to an ultimate rate 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 Trust held net position in the amount of \$28,179,981, all of which were invested with the Self Insured Schools of California (SISC) GASB 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

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### 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 this 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 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
Claims payments	<u>(10,038,256)</u>
Liability Balance, June 30, 2013	1,618,968
Claims and changes in estimates	8,646,187
Claims 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

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### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

#### CalSTRS

##### Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

##### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 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 California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by 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 their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 4.2 percent of his or her gross earnings to the pension plan.

### 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 \$4,414,446 (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 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**

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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

The District is 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 65, deferred issuance costs are now considered to be period expenses and are no longer deferred and amortized to expense. 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:

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

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Favorable (Unfavorable) Variances</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
<b>REVENUES</b>				
Local control funding formula	\$ 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)
<b>Total Revenues<sup>1</sup></b>	<b>197,811,853</b>	<b>213,876,824</b>	<b>214,241,232</b>	<b>364,408</b>
<b>EXPENDITURES</b>				
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	-
<b>Total Expenditures<sup>1</sup></b>	<b>201,183,978</b>	<b>216,695,136</b>	<b>216,137,590</b>	<b>557,546</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,372,125)</b>	<b>(2,818,312)</b>	<b>(1,896,358)</b>	<b>921,954</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	2,000,000	-	6,903,132	6,903,132
Transfers out	(100,000)	(500,000)	(516,364)	(16,364)
<b>Net Financing Sources (Uses)</b>	<b>1,900,000</b>	<b>(500,000)</b>	<b>6,386,768</b>	<b>6,886,768</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,472,125)</b>	<b>(3,318,312)</b>	<b>4,490,410</b>	<b>7,808,722</b>
<b>Fund Balance - Beginning</b>	<b>28,860,182</b>	<b>28,860,182</b>	<b>28,860,182</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 27,388,057</b>	<b>\$ 25,541,870</b>	<b>33,350,592</b>	<b>\$ 7,808,722</b>
<b>Special Reserve -Other than Capital Outlay</b>			<b>12,206,443</b>	
<b>Fund Balance - Ending-GAAP</b>			<b>\$ 45,557,035</b>	

<sup>1</sup> 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 revenues, expenditures and financing sources and uses are excluded from this schedule.



**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
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%

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***SUPPLEMENTARY INFORMATION***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through		Federal Expenditures
	Federal CFDA Number	Entity Identifying Number	
<b>U.S. DEPARTMENT OF EDUCATION</b>			
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 (CDE):			
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>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Education (CDE):			
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 (CDE):

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 <sup>1</sup>	10.555	13534	<u>190,007</u>
Total U.S. Department of Agriculture			<u><u>3,802,864</u></u>

U.S. DEPARTMENT OF DEFENSE

Direct Grants:

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

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<sup>1</sup> Not recorded in the financial statements.

<sup>2</sup> 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

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### ORGANIZATION

The East Side Union High School District was organized in 1949 under the laws of the State of California. The District operates under a locally-elected five-member 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  
FOR THE YEAR ENDED JUNE 30, 2014**

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	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>

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See accompanying note to supplementary information.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

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

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Grade Level	1986-87	Reduced	2013-14 Actual Minutes	Number of Days		Status
	Minutes Requirement	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

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See accompanying note to supplementary information.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial 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 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	-	-	(414,139)
Balance, June 30, 2014, Audited Financial Statements	<u>\$ 45,557,035</u>	<u>\$ -</u>	<u>\$ 111,719,124</u>

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See accompanying note to supplementary information.



# EAST SIDE UNION HIGH SCHOOL DISTRICT

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

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

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.

<sup>1</sup> Budget 2015 is included for analytical purposes only and has not been subjected to an audit.

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

<sup>3</sup> 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.

<sup>4</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Other Than Capital Outlay fund.

See accompanying note to supplementary information.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2014

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<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 & Careers Family Learning	No
Latino College Preparatory Academy	No
San Jose Conservation Corps Charter	No
Summit Rainier	No
ACE Charter High School	No

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See accompanying note to supplementary information.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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

See accompanying note to supplementary information.

<b>Retiree Benefits Special Reserve Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 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>

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 670,824	\$ 579,859	\$ -
Other State sources	325,949	798,947	-
Other local sources	900	40,463	1,306
<b>Total Revenues</b>	<u>997,673</u>	<u>1,419,269</u>	<u>1,306</u>
<b>EXPENDITURES</b>			
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	-	-
Plant services	4,405	46,404	264,178
Facility acquisition and construction	-	-	-
<b>Total Expenditures</b>	<u>935,046</u>	<u>1,419,269</u>	<u>264,178</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>62,627</u>	<u>-</u>	<u>(262,872)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	500,000
Transfers out	(3,403,132)	-	-
<b>Net Financing Sources (Uses)</b>	<u>(3,403,132)</u>	<u>-</u>	<u>500,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,340,505)	-	237,128
<b>Fund Balance - Beginning</b>	3,548,366	-	163,192
<b>Fund Balance - Ending</b>	<u>\$ 207,861</u>	<u>\$ -</u>	<u>\$ 400,320</u>

See accompanying note to supplementary information.

<b>Retiree Benefit Special Reserve Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ 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>
24,409	1,708,367	(184,517)	7	1,348,021
-	-	-	-	500,000
(3,500,000)	-	-	-	(6,903,132)
<u>(3,500,000)</u>	<u>-</u>	<u>-</u>	<u>-</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

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### 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 *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement, as required by *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 36past 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**

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of East Side Union High School District (the District) as of and for the year ended June 30, 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 \_\_\_\_\_, 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  
\_\_\_\_\_, 2014

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**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

\_\_\_\_\_, 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
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.

Palo Alto, California  
 \_\_\_\_\_, 2014

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

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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**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>No</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 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>84.367</u>	<u>Title II, Part A</u> <u>Teacher Quality and Administrator training</u>
<u>84.0002, 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**

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None reported.

DRAFT

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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None reported.

DRAFT

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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

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None reported.

DRAFT

# EAST SIDE UNION HIGH SCHOOL DISTRICT

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

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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**

##### **Finding**

SARC disclosures concerning school facility conditions and the "good repair status" of facilities should use the most recent available 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 is not supported by the Facility Inspection Tool in accordance with the 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 reported variances between the two documents.

##### **Current Status**

Implemented

# Item #11

**Rehon  
Roberts**  
A Professional Corporation

Attorneys at Law  
830 The Alameda  
San José, California 95126  
t 408 494 0900 f 408 494 0909  
www.rehonroberts.com

direct 408-387-5239  
rruiz@rehonroberts.com

December 2, 2014

**VIA ELECTRONIC MAIL AND U.S. MAIL**

Marcus Battle  
Associate Superintendent of Business Services  
East Side Union High School District  
830 N. Capitol Avenue  
San Jose, CA 95133

Re: East Side Union High School District

Dear Mr. Battle:

This firm represents the East Side Union High School District ("District").

### **Introduction and Background**

Pursuant to Education Code sections 35256 and 33126, the District is required to prepare and annually issue a School Accountability Report Card (SARC) for each school in the District. Pursuant to section 35256, the SARC shall include, but is not limited to, the conditions listed in Section 33126. Pursuant to Education Code Section 33126(a), school districts must prepare a SARC that provides "data by which a parent can make meaningful comparisons between public schools that will enable him or her to make informed decisions on the school in which to enroll his or her children."

Pursuant to Education Code section 1240(c), the County Superintendent of Schools shall visit and examine each school in his or her county at reasonable intervals to observe its operation and to learn of its problems and shall annually shall submit a report, at a regularly scheduled November board meeting, to the governing board of each school district under his or her jurisdiction regarding decile 1-3 schools in the district. The school visits and the report shall review and report on "[t]he accuracy of data reported on the school accountability report card with respect to the availability of sufficient textbooks and instructional materials, as defined by Section 60119, and the safety, cleanliness, and adequacy of school facilities, including good repair as required by Sections 17014, 17032.5, 17070.75, and 17089". (Educ. Code §1240(c)(J)(iii).)

Marcus Battle, ESUHSD  
December 2, 2014  
Page 2

The District is required to perform its annual facilities inspections using either the Facilities Inspection Tool ("FIT") developed by the California Department of Education's Office of Public School Construction (OPSC), "or a local evaluation instrument that meets the same criteria." (Educ. Code §17002(d)(1).) The FIT tool is used to determine if a school facility is in "good repair" as defined by Education Code section 17002(d)(1) and to rate the facility pursuant to section 17002(d)(2). The tool is designed to identify areas of a school site that are in need of repair based upon a visual inspection of the site. Both the District and the County Office of Education utilize the FIT analysis developed by the OPSC in conducting their respective inspections and evaluations.

You have asked us to consider and provide guidance and an opinion on which version of the SARC report – the District's or the County Superintendent's report on the District's SARC – "supersedes" the other. Stated differently, you have asked whether the District is legally obligated to include the facility reports and results prepared by the District, or the facility reports prepared by the Santa Clara County Office of Education ("COE") for the same school sites, in the District's SARCs for its Decile 1-3 schools.

**Short answer:** Based on our review and research, and after receiving some clarifying information from Ms. Peters at Vavrinek, Trine, Day & Co. LLP (VTD), our opinion is that the obligation to prepare the SARCs rests solely with the District, that the District's past practice of including only the District's FIT analysis and results in its SARCs is consistent with statutory requirements, and that the District's FIT analysis (and not the COE's) may properly be included in the District's SARCs.

#### **Analysis and Opinion**

Per Education Code sections 35256 and 33126, the obligation to prepare the SARCs rests with the governing board of the District. Education Code section 35256 provides:

"The governing board of each school district maintaining an elementary or secondary school shall develop and cause to be implemented for each school in the school district a School Accountability Report Card.

Marcus Battle, ESUHSD  
December 2, 2014  
Page 3

- (a) The School Accountability Report Card shall include, but is not limited to, the conditions listed in Section 33126.
- (b) Not less than triennially, the governing board of each school district shall compare the content of the School Accountability Report Card of the school district to the model School Accountability Report Card adopted by the state board. Variances among school districts shall be permitted where necessary to account for local needs.
- (c) The governing board of each school district annually shall issue a School Accountability Report Card for each school in the school district, publicize those reports, and notify parents or guardians of pupils that a hard copy will be provided upon request. Commencing with the 2008–09 school year, each school district shall make hard copies of its annually updated report card available, upon request, on or before February 1 of each year.” (Emphasis added.)

Thus, under Section 35256 it is the exclusive responsibility of the governing boards of school districts to prepare and issue the SARCs.

Pursuant to Education Code 1240(c), the County Superintendent of School’s review and oversight authority is to prepare and submit an annual report to each district under his/her jurisdiction which, for each decile 1-3 school, includes the COE’s/ County Superintendent’s observations as to , among other things, “[t]he accuracy of data reported on the school accountability report card [SARC] with respect to the availability of sufficient textbooks and instructional materials, as defined by Section 60119, and the safety, cleanliness, and adequacy of school facilities, including good repair as required by Sections 17014, 17032.5, 17070.75, and 17089”. Thus, the responsibility to prepare the SARC rests with the District; the responsibility of the County Superintendent is to report on the accuracy of data included in the SARCs, including the information in the SARC about the safety, cleanliness, and adequacy of school facilities, including good repair as required by Education Code sections 17014, 17032.5, 17070.75, and 17089. In performing that responsibility (in measuring the accuracy of the data reported by the district in the SARCs), the County Superintendent/COE may perform its own FIT analysis and publish those separate results in the County Superintendent’s Williams Settlement Annual Report.



Marcus Battle, ESUHSD  
December 2, 2014  
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Section § 19837.3(b) (“School Accountability Report Card”) of the State Compliance Audit Guide provides in part:

“(b) For each school in the sample of schools selected pursuant to Section 19817.1(b), obtain the school district’s or county office of education’s copy of its most recently completed “Facility Inspection Tool (FIT), School Facility Conditions Evaluation” developed by the Office of Public School Construction and approved by the State Allocation Board, and applicable to the year audited, or a local evaluation instrument that meets the same criteria, pursuant to the provisions of subdivision (d) of Education Code Section 17002. If the FIT was completed prior to the publication of the school’s School Accountability Report Card, compare the information contained in the FIT to the information on safety, cleanliness, and adequacy of school facilities contained in the School Accountability Report Card for that school as required by the provisions of subdivision (b)(9) of Education Code Section 33126. If the information in the School Accountability Report Card is inconsistent with the information in the FIT, interview management to determine the basis of the inconsistency. If the School Accountability Report Card was inaccurate, include a finding in the Findings and Recommendations section of the audit report.”

On the basis of the language of Section 19837.3(b) of the State Compliance Audit Guide, VTD has expressed concern that the SARC’s may be required to include the COE’s FIT analysis, instead of the District’s. The specific concern which has arisen is that the FIT analysis prepared by the District and included in the SARC’s, and the FIT analysis prepared by the COE, may not always be consistent. The COE’s FIT analysis appears in the COE’s Williams Settlement Annual Report.

VTD is concerned that that when the two FIT analyses (the District’s and the COE’s) are not consistent the Audit Guide requires a finding in the audit report. As explained below, we don’t believe that interpretation is consistent with the statutory language or Section 19837.3(b) of the Audit Guide.

First, Section 19837.3(b) of the Audit Guide advises the auditor to obtain the school district’s or the COE’s most recently completed FIT evaluation. This is stated in

Marcus Battle, ESUHSD  
December 2, 2014  
Page 5

the alternative and suggests which FIT report is relevant may depend on which agency is being audited (i.e., a school district or the schools directly administered by a County Office of Education (e.g., County schools)). Further, Section 19837.3(b) of the Audit Guide states that if the most recent FIT report was prepared prior to the publication of the most recent SARC, then the auditor is directed to compare the information in the FIT report to the information on safety, cleanliness and adequacy of school facilities in the SARC as required by Educ. Code section 33126(b)(9). Since Education Code imposes a "good repair" obligation on Districts (Education Code sections 17070.75, 17002) and the use of the FIT analysis or its equivalent, and the preparation of the SARC is distinctly the District's in the first instance, a reasonable interpretation of Section 19837.3 of the Audit Guide is that the auditor's inquiry is to determine whether the SARC accurately reflects the information contained in the actual FIT report that is summarized in the SARC and, if the information is different, to then determine whether any difference are the result of the passage of time between the preparation of the FIT analysis and the preparation of the SARC by the District. Thus, Section 17983.3(b) does *not* direct the auditor to obtain both FIT reports and to make a determination whether they are factually consistent. (As a practical matter, however, the district cannot prohibit an auditor from making that analysis if the auditor chooses.)

Second, the Audit Guide recommends including a finding only if the Auditor finds that the SARC was inaccurate, and not the FIT. (See underlined section above.) Since the District's SARC includes/should include the District's FIT evaluation, the auditor must then make factual findings that the District's FIT report is inaccurate (and/or that the COE's FIT report for the same school was accurate). Otherwise, any exception in the audit report should note only variances for which no factual findings can be made, but not any inaccuracies.

In my discussion with Ms. Peters of VTD she informed me that other school districts use the FIT reports prepared by the COE and incorporate those in the district SARCs, rather than preparing their own FIT analyses as is the District's practice. As a result, those districts never experience any variances between the FITs and the SARCs.

Although not within the scope of this assignment, it is my view after reviewing these issues that past variances between the District FIT analyses and SARCs, on the one

**Rehon  
Roberts**  
A Professional Corporation

Marcus Battle, ESUHSD  
December 2, 2014  
Page 6

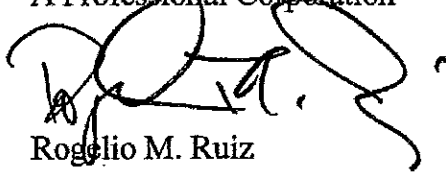
hand, and the COE FIT analyses, on the other hand, were likely a result of the timing of the preparation of the FIT reports by the COE and the preparation of the District analyses and SARCs by District staff.

Based on the foregoing, it is our opinion that: (1) pursuant to Education Code section 35256 it is the exclusive responsibility of the Governing Board of the District to prepare and issue the District SARCs; (2) the SARC reports may include the District's FIT analyses and are not required to include the COE FIT analyses; and (3) per Section 19837.3(b) of the Audit Guide, the auditor may include an audit finding only if the auditor finds that the District's SARC report is inaccurate. If the auditor bases that audit finding on a discrepancy between the District FIT and the COE FIT analyses then the District should have an opportunity to explain that discrepancy and remove that finding from the final audit report.

Please feel free to contact me if you have any questions or concerns.

Sincerely,

REHON ROBERTS  
A Professional Corporation



Rogelio M. Ruiz

cc: Kelly Kwong, Senior Manager of Internal Controls, ESUHSD  
Joyce Peters, Vavrinek, Trine, Day & Co. LLP

## Item #12

### ESUHSD Audit Committee Meeting 12/2/14

### Oak Grove High School Band Booster (Booster) Request to Resume BINGO

#### A Timeline of events:

- 6/6/14 District revoked Booster facility use for bingo
- 6/16/14 District revoked Booster ability to fundraise or solicit donations per Ed Code
- 6/19/14 District reported observations to San Jose Police Department (SJPd)
- 8/21/14 Booster received IRS Determination Letter
- 10/16/14 District approved Booster ability to fundraise, except for bingo
- 11/6/14 Booster received SJPd Bingo Permit, expires 12/5/15
- 11/20/14 OGHS Site Administration approved Facility Use Application and Permit to Use
- 12/1/14 Superintendent's Council's reviewed and discussed request
- 12/2/14 Audit Committee to review and discuss request

#### B District Requirements:

If Board approves fundraising, agreement must include:

- 1 Compliance with
  - a San Jose Municipal Code Chapter 6.16
  - b California Penal Code 326.5
- 2 Required on site armed security law enforcement, not private security firm
- 3 District facilities use fee including custodial cost
- 4 Quarterly financial review



**EAST SIDE UNION HIGH SCHOOL DISTRICT  
Board Audit Committee - 2014  
Detail of Terms Appointed**

Name	Title	Term(s) Appointed	Current Term Expiration Date
Magdalena Carrasco	Chair	As Appointed Annually	December 11, 2014
Frank Biehl	Vice Chair	As Appointed Annually	December 11, 2014
Dan Juchau	Member	1 <sup>st</sup> term Feb. 2010 – Jan. 2011 2 <sup>nd</sup> term Feb. 2011 – Jan. 2013 3 <sup>rd</sup> term Feb. 2013 – Jan. 2015	January 31, 2015
Bruce Berg	Member	1 <sup>st</sup> term Feb. 2010 – Jan. 2012 2 <sup>nd</sup> term Feb. 2012 – Jan. 2014 3 <sup>rd</sup> term Feb. 2014 – Jan. 2016	January 31, 2016
Jon Reinke	Member	1 <sup>st</sup> term Feb. 2012 – Jan. 2014 2 <sup>nd</sup> term Feb. 2014 – Jan. 2016	January 31, 2016
Anthony J. Phan	Alternate Member	1 <sup>st</sup> term Jan. 2014 – Jan. 2015	January 31, 2015

Per Audit Committee Charter, revised April 16, 2013:

Public member terms will be for two years. The alternate public member term will be for one year. In order to coincide with the annual presentation of the external audit report to the Board, public member terms shall begin on February 1 and end two years later on January 31 or when the Board appoints a new member, whichever is later. Public member’s terms will be staggered so that all terms do not start and end at the same time. Immediately after the initial appointment of the three public members, the Board shall determine by lot which two of the public members shall serve an initial term of two years with the third public member serving an initial term of one year. The maximum number of consecutive terms a member may serve is four. A termed out member is eligible for appointment again after not serving for at least one year.

**East Side Union High School District  
San Jose, California  
Audit Committee Charter  
Adopted 11/19/2009  
Revised 04/16/2013**

**I. Audit Committee Authority**

The East Side Union High School District (ESUHSD) has established an Audit Committee to assist the Board of Trustees (Board) in the oversight of both the internal and external audit functions. The ability to create an Audit Committee was established by ESUHSD BP 3460.

**II. Mission**

The primary responsibility for financial and other reporting, internal control, and compliance with laws, regulations, and ethics within the ESUHSD rests with the Superintendent and his / her management team. The Board has oversight responsibilities in these areas and the Audit Committee is to assist the Board in fulfilling these responsibilities.

The Board Members who are members of the Audit Committee shall, on behalf of the Audit Committee, have unrestricted access to all information, including documents and personnel, and have adequate resources in order to fulfill its oversight responsibilities. All confidential information shall be maintained as confidential in accordance with Board policy and law, and shall not be provided or distributed to public members of the Committee.

In adopting this Charter the Board directs that District Administration shall work cooperatively with the Committee to promptly and fully respond to all requests for information and documentation.

The Board has established an Audit Committee to serve in an advisory capacity to the Board and shall:

- 1) Assist the Board in providing oversight of the external/internal audit functions by:
  - a. Making recommendations regarding the selection of the external independent auditor,
  - b. Reviewing the plan for the audit process with the independent auditor to determine the adequacy of the nature, scope, and timetable of the audit,
  - c. Reviewing the results of the audit and participate with the independent auditor and the Board in preparing final recommendations and responses,
  - d. Participating with the independent auditor in presenting the audit report to the Board,
  - e. Reviewing Board policies and administrative regulations to recommend any revisions needed to ensure effective financial reporting,
  - f. Periodically reporting to the Board regarding the status of previous audit recommendations for improving the accounting and internal control functions, and
  - g. Providing input on the effectiveness of the external independent auditor.

- 2) Assist the Board in providing oversight of the external/internal audit functions
- 3) Assist the Board in complying with its fiduciary oversight obligations;
- 4) Provide a communication link between the external and/or internal auditor and the Board
- 5) Provide greater transparency over public funds while improving public trust

### **III. Membership**

The Audit Committee consists of five voting members appointed by the Board as follows:

- 1) Two Board members, who shall serve as Chair and Vice Chair of the Committee as determined by the Board. The Board President may not concurrently serve on the Audit Committee.
- 2) Three public members.

The Board may appoint an alternate public member. The alternate's responsibility is to temporarily substitute, with full voting powers, for any Audit Committee member who is absent from a meeting.

All voting members of the committee must reside within the boundaries of the East Side Union High School District.

The Board may appoint non-voting members with specific expertise to the committee. There is no residency requirement for non-voting members.

Appointment of Board members to the Audit Committee will be made at the Board's annual organizational meeting in December or as vacancies occur.

Board member terms shall be for one year beginning on the date of appointment at the Board's annual organizational meeting in December and ending the following year at the Board's next annual organizational meeting.

Public members will be appointed at the first regular Board meeting in January. Notification of the appointment process shall be posted at least 30 days prior to the appointment date. Public member terms will be for two years. The alternate public member term will be for one year. In order to coincide with the annual presentation of the external audit report to the Board, public member terms shall begin on February 1 and end two years later on January 31 or when the Board appoints a new member, whichever is later.

Public member's terms will be staggered so that all terms do not start and end at the same time. Immediately after the initial appointment of the three public members, the Board shall determine by lot which two of the public members shall serve an initial term of two years with the third public member serving an initial term of one year. The maximum number of consecutive terms a member may serve is four. A termed out member is eligible for appointment again after not serving for at least one year.

The members of the Audit Committee must collectively possess knowledge and experience in accounting, auditing, financial reporting, and school district finances needed to understand and

evaluate the district's financial statements, the external audit of those statements, and the district's internal audit activities. Accordingly, the Audit Committee members should:

- 1) Be independent of the day-to-day management of the ESUHSD,
- 2) Possess the required skills and experience necessary to understand technical and complex financial reporting issues,
- 3) Have the ability to communicate with and offer advice and assistance to the Board, the external auditors, and the internal auditor,
- 4) Be knowledgeable about internal controls, financial statement audits, and managerial/operational audits
- 5) Be available to take training in educational finance

The following individuals cannot serve on the Audit Committee:

- a) Any person who, within the two years prior to appointment, has been an employee of the ESUHSD or sold goods or services to the ESUHSD,
- b) Anyone who, within the past two years, owns or has a direct and material interest in an entity, or who holds a leadership position in any entity, which provides substantial goods or services to the ESUHSD pursuant to purchase order or contract (either individually or under a fictitious business name),
- c) A close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under a) through b) above. The term "close or immediate family member" includes parent, sibling, nondependent child, spouse or domestic partner, or dependent (whether or not related),

Exceptions are as follows:

- d) An individual who would otherwise be excluded may serve if, after full disclosure to the Board, the potential conflict of interest is not material,
- e) Any member who develops a conflict of interest while on the Audit Committee must disclose such conflict. The other Audit Committee members at the next meeting shall, by majority vote, make a recommendation to the Board. The Board shall decide whether or not to remove and replace the affected member. Should a vacancy occur, the Board will notify the public of the opening, accept applications and appoint an individual to serve the balance of the vacated term.

If a vacancy among the voting public members occurs, the Board may appoint the alternate public member to fill the term of the vacated member.

The Audit Committee Chair and Vice Chair shall recommend to the Board as to when (as quickly as possible or in conjunction with the annual appointment of public member(s)) a new alternate public member shall be appointed.



## **IV. Duties and Responsibilities**

### Internal Control

The Audit Committee monitors the fiscal health of the ESUHSD and the relationship between its spending and its adopted budget. To carry out this duty, the Audit Committee:

- 1) Reviews the effectiveness of the ESUHSD's accounting organizational structure, and operations
- 2) Reviews the ESUHSD's internal controls, the adequacy of such controls, and recommends changes to management and the Board,
- 3) Reviews with the Superintendent and other management personnel the adequacy of systems and procedures for protecting information,
- 4) Inquires of the Superintendent and other management personnel about significant financial risks or exposures facing the ESUHSD, assesses the steps the ESUHSD has taken, or proposes to take, to minimize such risks to the ESUHSD, and periodically review compliance with such steps,
- 5) Review with the Superintendent and other management personnel;
  - a. Significant findings with respect to any management financial review including that of the Audit Committee, during the year and responses thereto,
  - b. Any difficulties review teams or personnel encountered in the course of their review, including any restrictions on the scope of their work or access to required information,
  - c. Any changes required in the scope of the review.
- 6) Reviews with the independent auditors, the Superintendent, and financial management personnel:
  - a. The adequacy of the ESUHSD's internal controls including computerized information system controls and security,
  - b. Any related significant findings and recommendations of the independent auditors together with management's responses thereto, and
  - c. The clarity and transparency of financial information and disclosures.

The Audit Committee reviews the ESUHSD's procedures for monitoring compliance with the Code of Conduct.

The Audit Committee recommends procedures for the confidential, anonymous submission of concerns about questionable accounting or auditing matters or suspected fraud. At the request of the Board, it reviews any submissions that are received, the current status of the review, and the resolutions, if any.

Assist the Board in providing oversight of the external audit functions

### General

The Audit Committee

- Shall perform its duties in good faith, in a manner to be in the best interests of the Audit Committee and the ESUHSD which a reasonably prudent person in a similar position would use under similar circumstances,

- Shall have an obligation to the ESUHSD to maintain strict confidentiality regarding confidential information it may have access to,
- Shall meet at least three times per calendar year, and at additional times when necessary, to fulfill its responsibilities,
- Shall receive training and comply with the Brown Act
- May ask members of management or others to attend its meetings and provide pertinent information as necessary,
- In consultation with the Board may have access to all information it deems necessary to carry out its duties, consistent with California law,
- May request information from the ESUHSD that is deemed necessary to carry out its duties and responsibilities. Only the Audit Committee Chair will make these requests for information. Any member wishing to request information will do so by submitting the approved Committee request form to the Audit Committee Chair for approval. If the Audit Committee Chair approves the request, the Chair will send the request to the Board for processing. If the Chair does not approve the request, a majority of the Audit Committee may override the request denial. In the event of an override, the Chair is required to submit the request to the Board.

A quorum constitutes a simple majority of the total voting membership and meetings will not be conducted unless a quorum is present.

Every attempt will be made to make decisions by consensus of the voting members present. Consensus is defined as an acceptable solution that all can agree to support. If consensus cannot be reached, polling of the voting membership will take place. Any decision of the Audit Committee requires an affirmative vote by the majority of the committee's voting membership. Voting members who are physically absent from a meeting can participate through audio or video means. Proxies CANNOT be granted.

The Audit Committee may recommend to the Board the engagement of professional consultants. The authority to engage professional consultants rests exclusively with the Board.

The Audit Committee shall report to the Board, at least annually, its activities, findings, and decisions. Reported findings should include any suspected fraud or abuse or material defects in internal management controls, and any significant failure to comply with laws, or district policies or regulations.

The Chair prepares the agenda with consultation with the Vice Chair. Any member wishing to place an item on the agenda will do so by communicating in writing to the Chair.

The Audit Committee shall prepare minutes of each meeting that, at a minimum will include:

- Copies of the meeting agenda,
- Date, attendance, and location of the meeting
- A brief summary of the topics discussed, and
- Any recommendations forwarded to the Board

The Audit Committee may recommend to the Board the dismissal of any member who has had two unexcused absences during the member's term or three absences, for any reason, in any twelve month time period. Dismissal requires a majority vote of the Board.

### External Auditors

The Audit Committee oversees the ESUHSD's engagement of any independent accountants for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. The Board, acting on the recommendation of the Audit Committee, makes all final decisions concerning the appointment, compensation, and retention of such accountants. All accountants thus engaged report directly to the Audit Committee that will oversee the accountant's work and evaluates their performance.

The Audit Committee's oversight responsibility includes:

- 1) Monitoring the periodic selection of and contracting with, the outside independent auditor in accordance with State law, and reviewing the independence of the audit,
- 2) Meeting with the independent auditors prior to commencement of the annual audit to review the engagement letter (scope of the work to be performed)
- 3) Receiving and reviewing the draft annual audit report and draft management letter comments,
- 4) Reviewing all non-privileged significant written communications between the independent auditors and management, such as any schedule of unadjusted differences,
- 5) Making a recommendation to the Board concerning acceptance of the annual audit report,
- 6) Reviewing with management and independent auditors:
  - a. The ESUHSD's annual financial statements, related footnotes, and management's discussion and analysis,
  - b. The independent auditor's audit of the financial statements and their report thereon, including any management letter comments or schedule of unadjusted differences,
  - c. The independent auditor's judgments about the quality, not just the acceptability, of the ESUHSD's accounting policies as applied in its financial reporting,
  - d. The auditor's assessment of the ESUHSD's system of internal controls,
  - e. Any significant changes required in the independent auditor's audit plan,
  - f. Restrictions on the auditor's activities or access to information, and any significant difficulties or disputes with the Superintendent or management encountered during the audit,
  - g. Matters required to be discussed by applicable government and professional literature and standards,
  - h. All critical accounting policies and practices used by the ESUHSD, any significant changes in these policies and practices, and the degree of aggressiveness or conservatism in applying these policies and practices,
  - i. Recent and proposed professional and regulatory pronouncements, especially those having a material impact on the ESUHSD's financial statements,
  - j. All alternative treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with the Board, the ramifications of each alternative, and the treatment preferred by the ESUHSD, and
  - k. Any corrective action plans developed by the ESUHSD.

The Audit Committee considers, with the Board, the rationale for employing audit firms other than the principal independent auditors for services that the ESUHSD or the independent auditors determine would not be appropriate for the principal independent auditors to perform.

### Internal Audit

The Audit Committee:

- a) If requested, may make recommendations to the Board regarding the selection of an internal auditor ,
- b) Assists in the oversight of any internal audit function,
- c) Reviews the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested,
- d) Reviews the results of internal audit activities and significant recommendations and finding of the internal auditor,
- e) Monitors implementation of the internal auditor's recommendations by the Superintendent and/or Board,

The Audit Committee and the internal auditor(s) shall maintain a degree of professional independence when assessing management's performance of its responsibilities. However, this does not mean that an adversarial role is necessary or desirable as both parties share common goals.

In working to ensure the independence of the internal auditing function and that appropriate actions are taken on audit findings, the Audit Committee shall promote and enhance the mutual cooperation among the Committee, internal auditor(s), and executive management.

### **V. Self-Assessment**

The Audit Committee shall review its charter annually, reassesses the adequacy of the charter and recommends any proposed changes to the Board. The Audit Committee considers changes that are necessary as a result of new laws, regulations, or accounting or auditing standards.

The Audit Committee conducts an annual self-assessment and describes to the Board, in a written report, how it discharged its duties.

Adoption and amendments to this charter shall be recommended by an affirmative vote of a majority of the committee and by passage of the Board.

The Audit Committee Chair, at the request of the Board, shall take responsibility for the immediate review and approval of the Internal Auditors hours, vacation requests and expense reimbursements.



## EAST SIDE UNION HIGH SCHOOL DISTRICT SEEKS AUDIT COMMITTEE APPLICANTS

The District invites applications from persons interested in serving on the school district's Audit Committee. Applicants must reside within the boundaries of the East Side Union High School District and meet other qualifications set forth in the Audit Committee Charter. The Board of Trustees will be appointing one committee member with a two-year term from February 1, 2015, through January 31, 2017, and one alternate with a one-year term from February 1, 2015, through January 31, 2015. Committee members currently serving in these positions may apply to be reappointed.

Interested community members may apply during the application period by submitting the following:

- An introductory cover letter summarizing why you should be considered for this appointment.
- A completed Audit Committee Membership Application.
- The applicant/nominee will be required to provide written responses to the questions listed below:
  1. *Briefly describe any professional or community experience that you believe qualifies you to serve on the Audit Committee. You may attach a current resume.*
  2. *Briefly describe any previous experience/involvement with the East Side Union High School District and/or other public schools.*
  3. *Briefly state why you are interested in serving as a member of the Audit Committee for the East Side Union High School District.*
  4. *Briefly describe your understanding of the role of the Audit Committee.*

Applicants/nominees are invited to review the Audit Committee Charter at:

<http://www.esuhsd.org/BoardAdmin/Board-Audit-Committee/index.html>

**DEADLINE FOR SUBMISSION OF MATERIALS:  
5:00 PM, January 6, 2015**

**For questions, contact:**

**Frank Biehl, Board Trustee, via e-mail at [biehlf@esuhsd.org](mailto:biehlf@esuhsd.org)**

**Send application materials by mail, fax, e-mail or personal delivery to:**

ESUHSD Audit Committee  
c/o Mary Guillen  
East Side Union High School District  
830 N. Capitol Avenue, San Jose, CA 95133  
E-Mail: [GuillenM@esuhsd.org](mailto:GuillenM@esuhsd.org)  
Fax: 408.347.5015

**EAST SIDE UNION HIGH SCHOOL DISTRICT (“ESUHSD”)  
SAN JOSE, CALIFORNIA  
AUDIT COMMITTEE MEMBERSHIP APPLICATION**

First Name \_\_\_\_\_ Last Name \_\_\_\_\_

Home Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

E-Mail Address \_\_\_\_\_ Phone # \_\_\_\_\_

*Instructions: Please respond to the following questions. Attach additional sheets if necessary. All applicants must respond to all questions in the Conflict of Interest Questions portion below and sign and date this application.*

1. Briefly describe any professional or community experience that you believe qualifies you to serve on the Audit Committee. You may attach a current resume.
  
2. Briefly describe any previous experience/involvement with the East Side Union High School District and/or other public schools.
  
3. Briefly state why you are interested in serving as a member of the Audit Committee.
  
4. Briefly describe your understanding of the role of the Audit Committee.

**CONFLICT OF INTEREST QUESTIONS** *(All applicants must respond)*

1. Within the last two years, have you been employed with the ESUHSD? Yes \_\_\_ No \_\_\_

2. Within the last two years, have you sold goods or services to the ESUHSD? Yes \_\_\_ No \_\_\_

If “Yes,” please explain: \_\_\_\_\_

3. Within the last two years, have you owned or had a direct and material interest in an entity, or held a leadership position in any entity, which provides goods or services to the ESUHSD pursuant to a purchase order or contract ? Yes \_\_\_ No \_\_\_

If “Yes,” please explain: \_\_\_\_\_

4. Are you a close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under (1) through (3) above? (Close or immediate family members include parents, siblings, nondependent child, spouse or domestic partner, or dependent (whether or not related). Yes \_\_\_ No \_\_\_

The above responses to the Conflict of Interest Questions are true and correct.

Signed: \_\_\_\_\_ Dated: \_\_\_\_\_

*The Governing Board may grant an exception to a potential conflict of interest, if, after full disclosure to the Board, the potential conflict is found not to be material.*

Applicants should review the Audit Committee Charter, a copy of which is available at the District’s Education Center or online at:

<http://www.esuhsd.org/BoardAdmin/Board-Audit-Committee/index.html>