

**EAST SIDE UNION
HIGH SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2012**

EAST SIDE UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; 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 Educational Agencies 2011-2012*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for postemployment benefits and budgetary comparison information as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The 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 (Circular A-133)* and the other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other supplementary information are fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2012

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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, 2012. 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.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The following major financial highlights of the current year are:

- The enrollment reported in the current fiscal year's California Basic Educational Data System (CBEDS) for the District is 24,077, which is a decrease of 312 and P2 ADA was 22,796 which is a decrease of 363 from the prior year. The District is allowed to use prior year ADA net of charter school movement for the Revenue Limit General Funding.
- The District received a 2.24% or \$164 per ADA for cost of living adjustment to their revenue limit (COLA). The District's revenue limit was also reduced by 20.602% or \$36.2 million as a percentage of the deficit factor to the revenue limit.
- The District received slightly less (1.41% decrease from the prior year) in Title I funding and No Child Left-Behind Program Improvement.
- The District maintained class sizes similar to the previous year at 33 to 1 average.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Two bargaining units-certificated and classified agreed to have 5 and 6 furlough days respectively in the school year.
- All administrators and managers received a salary pay cut of 2.747%.
- The District monitors the budget conservatively and has a \$26 million unrestricted fund balance, \$1.57 million restricted fund balance and \$12.1 million in General Reserve for economic uncertainties.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets 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 assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health 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.

In the Statement of Net Assets 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 Assets and the Statement of Activities. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

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 Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$102.5 and \$93.2 million for the fiscal years ended June 30, 2012 and 2011, respectively. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limits the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Current and other assets	\$ 337,429,420	\$ 258,117,054	\$ 685,916	\$ 298,678
Prepays for OPEB	21,734,515	20,418,222	-	-
Capital assets	549,754,236	511,315,428	-	107,359
Total Assets	908,918,171	789,850,704	685,916	406,037
Current liabilities	34,752,017	32,444,025	142,377	2,469
Long-term debt	771,645,165	664,200,333	-	-
Total Liabilities	806,397,182	696,644,358	142,377	2,469
Net assets				
Invested in capital assets, net of related debt	32,843,952	28,606,844	-	107,359
Restricted	40,573,224	35,861,360	-	-
Unrestricted	29,103,813	28,738,142	543,539	296,209
Total Net Assets	\$ 102,520,989	\$ 93,206,346	\$ 543,539	\$ 403,568

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Changes in Net Assets

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

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Revenues				
Program revenues				
Charges for services	\$ 317,971	\$ 414,735	\$ 2,118,141	\$ 2,060,073
Operating grants and contributions	30,241,130	34,217,430	4,112,924	3,806,172
Capital grants and contributions	11,227,995	7,700,407	-	-
General revenues:				
State and federal sources	86,715,523	94,008,569	-	-
Taxes	125,752,794	120,059,442	-	-
Other general revenues	15,721,251	12,981,386	-	-
Total Revenues	269,976,664	269,381,969	6,231,065	5,866,245
Expenses				
Instruction related	172,261,798	167,339,052	-	-
Student support services	21,963,103	21,638,143	-	-
Administration	12,838,685	12,038,397	256,258	242,378
Maintenance and operations	16,990,834	16,979,284	-	-
Other outgo	429,257	570,529	-	-
Food Services	-	-	5,834,836	5,458,989
Interest and other	36,178,344	31,562,990	-	-
Total Expenses	260,662,021	250,128,395	6,091,094	5,701,367
Change in Net Assets	\$ 9,314,643	\$ 19,253,574	\$ 139,971	\$ 164,878

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 \$260.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenues was only \$218.9 million because the cost was paid by those who benefited from the programs (\$0.3 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$41.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$125.8 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

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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 and 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

	2012	2011
Instruction and related services	\$ 139,473,982	\$ 136,058,535
Pupil services	15,155,157	13,081,301
General administration	12,022,216	10,707,007
Maintenance and operations	16,938,586	16,913,548
Interest	33,658,748	29,354,808
Other	1,626,236	1,680,624
Totals	\$ 218,874,925	\$ 207,795,823

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$298.0 million, which was an increase of \$76.0 million from last year. The significant increase in the combined fund balance was due to the issuance of the general obligation bonds.

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 2012. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report).

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 a 2.24% or \$164 per ADA for cost of living adjustment to their revenue limit (COLA) The District's revenue limit was also reduced by 20.602% or \$36.2 million as the deficit factor to the revenue limit. In addition, the District experienced a decline in its enrollment of 312. The District used up the carryover, \$1.2 million from the Federal Education Job Grant to bring back laid-off counselors and activity directors.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District governmental activities had \$549.8 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 \$38.4 million, or 7.5 percent, from last year. All business-type activities capital assets were disposed off in the current year. The District did not record a loss on the disposition because these assets were fully depreciated by the end of the fiscal year.

Table 4

	Governmental Activities		Business Activities	
	2012	2011	2012	2011
Land	\$ 25,442,454	\$ 25,442,454	\$ -	\$ -
Construction in progress	88,161,555	51,344,194	-	-
Buildings and improvements	549,589,190	532,067,125	-	-
Furniture and Equipment	26,291,380	25,732,849	-	505,422
Total Assets	689,484,579	634,586,622	-	505,422
Less Accumulated Depreciation	139,730,343	123,271,193	-	374,794
Totals	\$ 549,754,236	\$ 511,315,429	\$ -	\$ 130,628

Several capital projects are planned for the 2012-2013 and 2013-2014 years. We anticipate capital additions to be approximately \$146 million for the two upcoming years.

The following Measures G and E projects are planned for fiscal year 2012-13:

- Andrew Hill – Gym Bleachers, Track Resurfacing and Fields Upgrade
- Andrew Hill – New Kitchen Equipment
- Foothill – New Kitchen Equipment
- Independence – New Synthetic Turf Field, Track Resurfacing and Fields Upgrade
- Independence – New Kitchen Equipment and Pool Modernization
- James Lick – New Two Story Classroom Building 500.
- James Lick – Track Resurfacing and New Kitchen Equipment
- Mount Pleasant - Modernization Buildings 200, 300, 600, 700 & 800
- Mount Pleasant - Classroom/Multi-Purpose Buildings
- Mount Pleasant – New Synthetic Turf Field, Track Resurfacing and New Kitchen Equipment
- Oak Grove – Track Resurfacing and Exterior Painting Building
- Oak Grove - Gym Flooring and New Kitchen Equipment
- Piedmont Hills - New Auxiliary Gym Building and Lighting Replacement/Addition
- Piedmont Hills – Track Resurfacing, Gym Bleachers and Gym Flooring
- Piedmont Hills – New Exterior Painting-Buildings and New Kitchen Equipment
- Santa Teresa – Lighting Replacement/Addition and Track Resurfacing
- Santa Teresa – Gym Bleachers and Gym Flooring
- Santa Teresa – New Exterior Painting-Buildings and New Kitchen Equipment
- Silver Creek – New Multipurpose Building and Lighting Replacement/Addition
- Silver Creek – New Synthetic Turf Field and Track Resurfacing
- Silver Creek – Gym Bleachers and Fields Upgrade

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

- Silver Creek – New Exterior Painting-Buildings and New Kitchen Equipment
- Yerba Buena – Track Resurfacing and Gym Flooring
- Yerba Buena - New Exterior Painting-Buildings and New Kitchen Equipment
- W. C. Overfelt - New Synthetic Turf Field and Track Resurfacing
- W.C. Overfelt - New Kitchen Equipment

The following Measures G and E projects are planned for fiscal year 2012-13; some of such projects will not be completed until fiscal year 2013-14:

- Andrew Hill – New Asphalt/Concrete, Roofing
- Andrew Hill – Interior Flooring and Door Replacements
- Calero – Modernization
- Evergreen Valley – Miscellaneous Building Improvements
- Evergreen Valley – Paving, Fencing and Site Improvements
- Foothill – Roofing and Interior Flooring
- Independence – Modernize Buildings N1 & N2
- Independence – Asphalt. Concrete and Interior Flooring
- James Lick - Modernize Multi-Use Building 900
- James Lick - Asphalt. Concrete, Roofing, Interior Flooring and Door Replacements
- Mount Pleasant - Asphalt. Concrete, Roofing and Door Replacements
- Oak Grove – Modernize Building U and Theater Building I
- Oak Grove - Asphalt. Concrete and Interior Flooring
- Piedmont Hills – Pool Modernization
- Piedmont Hills - Asphalt. Concrete, Interior Flooring and Door Replacements
- Santa Teresa - Asphalt. Concrete and Interior Flooring
- Santa Teresa - Modernize Unit 100, 200, 400, 700, 1300 & 1400
- Silver Creek - Modernize and New Toilet Rooms (Student/Staff Buildings D, K, O, S)
- Silver Creek - Paving, Fencing and Site Improvements
- Silver Creek - Asphalt. Concrete, Interior Flooring and Door Replacements
- W.C. Overfelt – Modernize Special Education Building J
- W.C. Overfelt – Modernize Classroom Building D
- W.C. Overfelt – Asphalt. Roofing and Door Replacements
- W.C. Overfelt – New Exterior Painting-Building and New Kitchen Equipment
- W.C. Overfelt Adult Education – New Classroom Facility
- Yerba Buena – Modernize Ceramics Portion of Building 1000
- Yerba Buena – Paving, Fencing and Site Improvements
- Yerba Buena - Asphalt. Concrete, Interior Flooring and Pool Modernization

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Long-Term Obligations

The District issued \$120.0 million in 2008 Series C and D bonds in the current year to finance the construction of school facilities. In addition, the District issued 2011 and 2012 refunding bonds to advance refund the 2002 Series C and the 2003 refunding bonds in the amount of \$56.9 million.

Table 5

	2012 Governmental Activities	2011 Governmental Activities
General obligation bonds	\$ 695,367,620	\$ 592,810,347
Premium	27,533,551	16,277,746
Defeasance costs	(5,429,451)	(4,779,677)
OPEB revenue bond	31,405,000	31,635,000
Capital Leases	-	197,615
Supplemental Retirement Plan	4,305,940	-
Equipment Loan	14,916,793	25,003,633
Accumulated vacation - net	3,545,712	3,055,669
Totals	<u>\$ 771,645,165</u>	<u>\$ 664,200,333</u>

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 \$771.6 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 8 of the financial statements.

EAST SIDE UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-2012 ARE NOTED BELOW:

The District showed the largest CST gains in English Language Arts. The District showed consistent increases in the number of 9th grade students testing in Geometry and Biology and decreases in the number of students testing in Integrated Science and Algebra 1. The District showed small gains in the percent of students passing both English Language Arts and Math portions of the CAHSEE which is on par with the State. First time passage rates for English Language Arts increased by 2% and 1% by different sub-groups and 3% increased for Special Education students. First time passage rated for Mathematics increased by 5% for African American students. The class of 2012 had 4,782 graduates comprising 86% of the senior class. East Side has shown a gain in the percent of students scoring "College Ready" in Math over the last 3 years as well as the percent of students scoring "Conditionally Ready". East Side continues to see an increase in the number of students which includes ELL and Special Education students taking the EAP portion of the exam.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District's Budget for the 2012-2013 fiscal year, the District Board and Management made several assumptions. Among those assumptions is that the State will provide a general fund revenue limit cost of living adjustment (COLA) of 3.24 % but reduce the revenue limit by a 22.272% deficit factor or \$39.9 million. The District only provides a limited Summer Program for Special Education and lack of credit make-ups and maintain previously enacted budget reductions; such as increase class size, furlough days for all employees. All employees are paying more co-pay for doctor visits and prescriptions to lower medical benefit cost for the District. The District implements an early retirement incentive program for staff and projects to have an estimated about \$1.5 million savings in 2012/13. The District plans to install artificial turf for all school football fields to save water and bring equity to all school sites. The Community just passed a \$120 million Facilities GO bond in the November 2012 election.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 284,115,145	\$ 937,066	\$ 285,052,211
Receivables	39,603,043	520,985	40,124,028
Internal balances	852,047	(852,047)	-
Deferred charges	11,591,977	-	11,591,977
Stores inventories	177,138	79,912	257,050
Other current assets	1,090,070	-	1,090,070
Postemployment benefits contributions	21,734,515	-	21,734,515
Capital assets not depreciated	113,604,009	-	113,604,009
Capital assets, net of accumulated depreciation	436,150,227	-	436,150,227
Total Assets	908,918,171	685,916	909,604,087
LIABILITIES			
Accounts payable	17,173,967	142,377	17,316,344
Interest payable	11,293,076	-	11,293,076
Deferred revenue	5,205,937	-	5,205,937
Claims liability	1,079,037	-	1,079,037
Current portion of long-term obligations	22,586,129	-	22,586,129
Noncurrent portion of long-term obligations	749,059,036	-	749,059,036
Total Liabilities	806,397,182	142,377	806,539,559
NET ASSETS			
Invested in capital assets, net of related debt	32,843,952	-	32,843,952
Restricted for:			
Debt service	19,733,343	-	19,733,343
Capital projects	3,270,205	-	3,270,205
Legally restricted	13,158,846	-	13,158,846
Self insurance	4,410,830	-	4,410,830
Unrestricted	29,103,813	543,539	29,647,352
Total Net Assets	\$ 102,520,989	\$ 543,539	\$ 103,064,528

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, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 145,165,324	\$ 31,767	\$ 14,410,112	\$ 11,227,995
Instruction-related activities:				
Supervision of instruction	12,317,362	82	6,397,591	-
Instructional library and technology	728,927	-	179,010	-
School site administration	14,050,185	6	541,253	-
Pupil services:				
Home-to-school transportation	5,106,694	272,535	1,517,196	-
All other pupil services	16,856,409	517	5,017,698	-
Administration:				
Data processing	2,980,740	-	14,214	-
All other administration	9,857,945	12,155	790,100	-
Plant services	16,990,834	909	51,339	-
Ancillary services	2,175,672	-	1,320,124	-
Enterprise services	343,924	-	-	-
Interest on long-term obligations	33,658,748	-	-	-
Other outgo	429,257	-	2,493	-
Total Governmental Activities	260,662,021	317,971	30,241,130	11,227,995
Business-Type Activities				
Food services	5,834,836	2,027,922	3,940,922	-
Administration	256,258	90,219	172,002	-
Total Business-Type Activities	6,091,094	2,118,141	4,112,924	-
Total Primary Government	\$ 266,753,115	\$ 2,436,112	\$ 34,354,054	\$ 11,227,995
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				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

Governmental Activities	Business- Type Activities	Total
\$ (119,495,450)	\$ -	\$ (119,495,450)
(5,919,689)	-	(5,919,689)
(549,917)	-	(549,917)
(13,508,926)	-	(13,508,926)
(3,316,963)	-	(3,316,963)
(11,838,194)	-	(11,838,194)
(2,966,526)	-	(2,966,526)
(9,055,690)	-	(9,055,690)
(16,938,586)	-	(16,938,586)
(855,548)	-	(855,548)
(343,924)	-	(343,924)
(33,658,748)	-	(33,658,748)
(426,764)	-	(426,764)
(218,874,925)	-	(218,874,925)
-	134,008	134,008
-	5,963	5,963
-	139,971	139,971
(218,874,925)	139,971	(218,734,954)
84,312,280	-	84,312,280
41,242,754	-	41,242,754
197,760	-	197,760
86,715,523	-	86,715,523
2,084,854	-	2,084,854
2,419,900	-	2,419,900
11,216,497	-	11,216,497
228,189,568	-	228,189,568
9,314,643	139,971	9,454,614
93,206,346	403,568	93,609,914
\$ 102,520,989	\$ 543,539	\$ 103,064,528

EAST SIDE UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 18,614,331	\$ 199,845,581	\$ 31,005,946
Receivables	36,005,034	299,985	20,473
Due from other funds	1,824,071	-	-
Stores inventories	177,138	-	-
Total Assets	\$ 56,620,574	\$ 200,145,566	\$ 31,026,419
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 11,930,423	\$ 5,024,179	\$ -
Due to other funds	-	-	-
Deferred revenue	4,993,142	-	-
Total Liabilities	16,923,565	5,024,179	-
Fund Balances:			
Nonspendable	179,638	-	-
Restricted	1,566,869	195,121,387	31,026,419
Committed	-	-	-
Assigned	1,065,969	-	-
Unassigned	36,884,533	-	-
Total Fund Balances	39,697,009	195,121,387	31,026,419
Total Liabilities and Fund Balances	\$ 56,620,574	\$ 200,145,566	\$ 31,026,419

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

Non Major Governmental Funds	Total Governmental Funds
\$ 30,156,057	\$ 279,621,915
3,277,551	39,603,043
-	1,824,071
-	177,138
<u>\$ 33,433,608</u>	<u>\$ 321,226,167</u>
\$ 125,932	\$ 17,080,534
972,024	972,024
212,795	5,205,937
<u>1,310,751</u>	<u>23,258,495</u>
-	179,638
23,627,047	251,341,722
8,494,268	8,494,268
1,542	1,067,511
-	36,884,533
<u>32,122,857</u>	<u>297,967,672</u>
\$ 33,433,608	\$ 321,226,167

EAST SIDE UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

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

Total Fund Balance - Governmental Funds	\$ 297,967,672
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	\$ 689,484,579
Accumulated depreciation is	<u>(139,730,343)</u>
Debt issuance costs are expensed in the governmental funds. On the government-wide statements, they are deferred and amortized over the life of the related debt.	11,591,977
In governmental funds, unmaturred interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmaturred interest on long-term obligations is recognized when it is incurred.	(11,293,076)
Excess contributions over the annual required contribution (ARC) to the other post-employment benefit trust are recognized as a prepaid in the government-wide statements. On the governmental funds, the contributions are treated as expenditures.	21,734,515
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.	4,410,830
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	695,367,620
Defeasance cost	(5,429,451)
Premium	27,533,551
OPEB revenue bonds	31,405,000
Retiree incentive	4,305,940
Equipment loans	14,916,793
Compensated absences (vacations)	<u>3,545,712</u>
Total Net Assets - Governmental Activities	<u>\$ 102,520,989</u>

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

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$ 140,295,655	\$ -	\$ -
Federal sources	13,574,033	-	-
Other State sources	36,143,574	-	382,973
Other local sources	13,457,925	1,777,828	40,929,586
Total Revenues	203,471,187	1,777,828	41,312,559
EXPENDITURES			
Current			
Instruction	126,666,172	-	-
Instruction-related activities:			
Supervision of instruction	10,902,493	-	-
Instructional library, media and technology	626,465	-	-
School site administration	10,914,611	-	-
Pupil services:			
Home-to-school transportation	4,700,463	-	-
Food services	9,215	-	-
All other pupil services	15,426,944	-	-
Administration:			
Data processing	2,743,626	-	-
All other administration	8,388,386	-	-
Plant services	14,924,233	-	-
Facility acquisition and construction	-	55,754,043	-
Ancillary services	2,002,600	-	-
Other outgo	429,257	-	-
Debt service			
Principal	1,445,331	-	17,885,097
Interest and other	1,951,469	3,293,250	22,717,863
Total Expenditures	201,131,265	59,047,293	40,602,960
Excess (Deficiency) of			
Revenues Over Expenditures	2,339,922	(57,269,465)	709,599
Other Financing Sources (Uses)			
Transfers in	2,262,671	-	-
Other sources	-	124,596,408	2,276,917
Transfers out	(254,212)	(12,671)	-
Net Financing Sources (Uses)	2,008,459	124,583,737	2,276,917
NET CHANGE IN FUND BALANCES	4,348,381	67,314,272	2,986,516
Fund Balance - Beginning	35,348,628	127,807,115	28,039,903
Fund Balance - Ending	\$ 39,697,009	\$ 195,121,387	\$ 31,026,419

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 140,295,655
1,321,325	14,895,358
18,599,124	55,125,671
943,004	57,108,343
<u>20,863,453</u>	<u>267,425,027</u>
4,119,545	130,785,717
435,038	11,337,531
44,477	670,942
2,017,899	12,932,510
-	4,700,463
-	9,215
88,558	15,515,502
-	2,743,626
213,926	8,602,312
741,858	15,666,091
468,658	56,222,701
-	2,002,600
-	429,257
9,069,124	28,399,552
349,713	28,312,295
<u>17,548,796</u>	<u>318,330,314</u>
<u>3,314,657</u>	<u>(50,905,287)</u>
254,212	2,516,883
-	126,873,325
<u>(2,250,000)</u>	<u>(2,516,883)</u>
<u>(1,995,788)</u>	<u>126,873,325</u>
1,318,869	75,968,038
30,803,988	221,999,634
<u>\$ 32,122,857</u>	<u>\$ 297,967,672</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, 2012

Total Net Change in Fund Balances - Governmental Funds		\$ 75,968,038
Amounts Reported for Governmental Activities in the Statement of Activities are Different		
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 assets 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	\$ 54,897,958	
Depreciation expense	<u>(16,459,150)</u>	38,438,808
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 less than the amounts earned by \$490,043.		
		(490,043)
Amortization of bond defeasance cost is not recognized in the governmental funds. In the government-wide statements, it is capitalized and amortized over the life of the related bond.		
		(333,826)
Issuance of general obligations bonds is recognized as a revenue on the statement of revenues, expenditures and change in fund balances but is removed from the statement of activities.		
		(120,026,088)
Issuance of refunding bonds is recognized as a revenue on the statement of revenues, expenditures and change in fund balances but is removed from the statement of activities.		
		(56,870,000)
Payment of the refunded bonds is not recognized as an expense in the statement of revenues, expenditures and changes in fund balances but is recorded as a long-term debt on the statement of net assets and does not impact the statement of activities.		
		59,010,000
Loss on refunding of the bonds is recorded as a deferred charge on the statement of net assets and is removed from the statement of revenues, expenditures and changes in fund balances.		
		983,600
Bond issuance costs paid for the issuance of bonds are expenditures in the governmental funds, but they are capitalized as a deferred charge in the statement of net assets and amortized over the life of the bond in the statement of activities.		
		2,944,206
Bond premium proceeds received from issuance of bonds are a revenue source in the governmental funds, but they increase long-term liabilities in the statement of net assets and do not affect the statement of activities.		
		(12,868,635)
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.		
		1,612,830

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, 2012

Amortization of debt issuance cost is not recognized in the governmental funds. In the government-wide statements, it is capitalized and amortized over the life of the related bond.			(614,834)
Obligations related to the District's supplemental retirement plan is 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 assets.			(5,382,425)
Payment of the supplemental retirement plan is recognized as an expenditure on the governmental funds but is removed from the statement of activities.			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.			(2,556,282)
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.			1,316,293
Repayment of the long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. Debt repayment for the year were as follows:			
General obligation bonds	17,885,097		
Capital leases	197,615		
Equipment loans	10,086,840		
Other postemployment benefit bonds	<u>230,000</u>	28,399,552	
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.			(1,841,511)
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>548,475</u>
Change in Net Assets - Government-Wide Activities			<u>\$ 9,314,643</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS
JUNE 30, 2012**

	Business-Type Activities- Cafeteria Enterprise Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 937,066	\$ 4,493,230
Receivables	520,985	-
Stores inventories	79,912	-
Other current assets	-	1,090,070
Total Current Assets	<u>1,537,963</u>	<u>5,583,300</u>
LIABILITIES		
Current Liabilities		
Accounts payable	142,377	93,433
Due to other funds	852,047	-
Claim liabilities	-	1,079,037
Total Current Liabilities	<u>994,424</u>	<u>1,172,470</u>
NET ASSETS		
Restricted for programs	543,539	4,410,830
Total Net Assets	<u>\$ 543,539</u>	<u>\$ 4,410,830</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES
 IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities- Cafeteria Enterprise Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Sales	\$ 2,118,141	\$ -
Other local revenue	32,845	892,399
Total Operating Revenues	<u>2,150,986</u>	<u>892,399</u>
OPERATING EXPENSES		
Payroll costs	3,751,500	-
Supplies and materials	1,934,876	122,708
Equipment rental	9,832	146,210
Claims	-	3,436,389
Other operating cost	394,886	79,564
Total Operating Expenses	<u>6,091,094</u>	<u>3,784,871</u>
Operating Loss	<u>(3,940,108)</u>	<u>(2,892,472)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	11	-
Federal grants	3,676,293	-
State grants	403,775	-
Indistrict contributions	-	3,440,947
Total Nonoperating Revenues	<u>4,080,079</u>	<u>3,440,947</u>
Change in net assets	139,971	548,475
Total Net Assets - Beginning	<u>403,568</u>	<u>3,862,355</u>
Total Net Assets - Ending	<u>\$ 543,539</u>	<u>\$ 4,410,830</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business- Type Activities- Cafeteria Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 2,150,986	\$ 4,333,346
Cash payments to employees for services	(3,751,500)	-
Cash payments for insurance claims	-	(3,892,861)
Cash payments to suppliers for goods and services	(2,154,181)	(348,482)
Net Cash Provided by (Used) For Operating Activities	<u>(3,754,695)</u>	<u>92,003</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants and contributions	<u>4,013,312</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>11</u>	<u>-</u>
Net increase in cash and cash equivalents	258,628	92,003
Cash and cash equivalents - Beginning	678,438	4,401,227
Cash and cash equivalents - Ending	<u>\$ 937,066</u>	<u>\$ 4,493,230</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating loss	\$ (3,940,108)	\$ (2,892,472)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Indistrict contributions	-	3,440,947
Changes in assets and liabilities:		
Other assets	107,359	(847,416)
Claims liabilities	-	(102,348)
Inventories	(7,350)	-
Prepaid expense	-	493,292
Accounts payable	139,908	-
Due to other fund	(54,504)	-
CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (3,754,695)</u>	<u>\$ 92,003</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENTS OF NET ASSETS
JUNE 30, 2012**

	<u>Retiree Benefits</u>	<u>Scholarships</u>	<u>Student Bodies</u>
ASSETS			
Deposits and investments	<u>\$ 21,110,506</u>	<u>\$ 69,182</u>	<u>\$ 1,963,714</u>
LIABILITIES			
Due to student groups	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,963,714</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 1,963,714</u>
NET ASSETS			
Restricted	<u>21,110,506</u>	<u>69,182</u>	
Total Net Assets	<u>\$ 21,110,506</u>	<u>\$ 69,182</u>	

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Retiree Benefits</u>	<u>Scholarships</u>
ADDITIONS		
Investment income (loss)	\$ (202,868)	\$ -
DEDUCTIONS		
Operating expenditures	30,892	-
Scholarships awarded	-	5,925
Total Deductions	<u>30,892</u>	<u>5,925</u>
Change in Net Assets	(233,760)	(5,925)
Net Assets - Beginning	21,344,266	75,107
Net Assets - Ending	<u>\$ 21,110,506</u>	<u>\$ 69,182</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 and 8 child care center.

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, 2012

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities 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 funds committed for deferred maintenance purposes.

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 and report financial resources that are restricted, committed, or assigned to the acquisition or construction of 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) 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.).

State School Building Lease-Purchase Fund The State School Building Lease Purchase Fund is used primarily to account separately for State apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 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, 2012

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds 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 any activity for which services are 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, 2012

Net assets 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 assets 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. Nonmajor 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 balance 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 assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. 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, 2012

Deferred Revenue Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

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, 2012, 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, 2012

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 assets, 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 assets. 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, 2012

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.

Deferred Issuance Costs, Premiums, Discounts and Defeasance Costs

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. Bond premiums and discounts, as well as issuance costs and defeasance costs are deferred and amortized over the life of the bonds using the straight line method.

Fund Balances - Governmental Funds

As of June 30, 2012, 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.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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 assets are 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.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statements No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of 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.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Governmental funds	\$ 279,621,915
Proprietary funds	5,430,296
Fiduciary funds	23,143,402
Total Deposits and Investments	<u>\$ 308,195,613</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 4,777,583
Cash in revolving	2,600
Investments	303,415,430
Total Deposits and Investments	<u>\$ 308,195,613</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, 2012

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 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	Cost	Fair Value	Average Maturity in Years
Mutual Funds	\$ 21,610,506	\$ 21,634,871	0.00
County Pool	281,604,924	281,604,924	1.29
Certificate of Deposits	200,000	200,000	0.17
Total	<u>\$ 303,415,430</u>	<u>\$ 303,439,795</u>	

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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	21,634,871	21,634,871
County Pool	281,604,924	281,604,924
Certificate Deposit	200,000	200,000
Total	\$ 303,439,795	\$ 303,439,795

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, 2012, District bank balances of \$2,563,869 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, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building	Bond Interest and Redemption Fund	Nonmajor Funds	Total	Proprietary
Federal Government						
Categorical aid	\$ 2,762,376	\$ -	\$ -	\$ 640,614	\$ 3,402,990	\$ -
State Government						
Apportionment	28,539,566	-	-	2,566,813	31,106,379	-
Categorical aid	2,047,272	-	-	32,571	2,079,843	-
Lottery	701,035	-	-	-	701,035	-
Interest	37,339	299,985	20,473	37,553	395,350	520,985
Other Local Sources	1,917,446	-	-	-	1,917,446	-
Total	\$ 36,005,034	\$ 299,985	\$ 20,473	\$ 3,277,551	\$ 39,603,043	\$ 520,985

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 25,442,454	\$ -	\$ -	\$ 25,442,454
Construction in Progress	51,344,194	50,397,940	13,580,579	88,161,555
Total Capital Assets not being depreciated	<u>76,786,648</u>	<u>50,397,940</u>	<u>13,580,579</u>	<u>113,604,009</u>
Capital Assets being depreciated:				
Buildings	479,334,846	15,482,108	-	494,816,954
Site Improvement	52,732,278	2,039,958	-	54,772,236
Equipment	25,732,849	558,531	-	26,291,380
Total Capital Assets being depreciated	<u>557,799,973</u>	<u>18,080,597</u>	<u>-</u>	<u>575,880,570</u>
Total Capital Assets	<u>634,586,621</u>	<u>68,478,537</u>	<u>13,580,579</u>	<u>689,484,579</u>
Less Accumulated Depreciation:				
Buildings	103,455,163	12,646,381	-	116,101,544
Site Improvement	5,302,273	2,194,101	-	7,496,374
Equipment	14,513,757	1,618,668	-	16,132,425
Total Accumulated Depreciation	<u>123,271,193</u>	<u>16,459,150</u>	<u>-</u>	<u>139,730,343</u>
Governmental Activities Capital Assets, Net	<u>\$ 511,315,428</u>	<u>\$ 52,019,387</u>	<u>\$ 13,580,579</u>	<u>\$ 549,754,236</u>
Business-Type Activities				
Furniture and Equipment	\$ 505,422	\$ -	\$ 505,422	\$ -
Less Accumulated Depreciation	374,794	23,269	398,063	-
Business-Type Activities Capital Assets, Net	<u>\$ 107,359</u>	<u>\$ (23,269)</u>	<u>\$ 107,359</u>	<u>\$ -</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Governmental Activities

Instruction	\$ 10,875,681
Supervision of Instruction	979,831
Instructional Library and Media	57,985
School Site Administration	1,117,675
Home to School Transportation	406,231
Food Services	505,064
All Other Pupil Services	1,340,907
Anciliary Services	173,072
All General Administration	765,590
Data Processing Services	237,114
Total Depreciation Expenses, Governmental Activities	<u>\$ 16,459,150</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2012, between major, nonmajor governmental funds and enterprise funds are as follows:

Due From	Due To		Total
	Non-major Fund	Cafeteria Enterprise Fund	
General Fund	\$ 972,024	\$ 852,047	\$ 1,824,071

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer in	Transfer out			Total
	General Fund	Building Fund	Nonmajor Fund	
General Fund	\$ -	\$ 12,671	\$ 2,250,000	\$ 2,262,671
Nonmajor governmental	254,212	-	-	254,212
Total	\$ 254,212	\$ 12,671	\$ 2,250,000	\$ 2,516,883

The General Fund transferred to Special Reserve-Post Employment Fund for OPEB.	\$ 254,212
The Building Fund transferred to the General Fund for routine repair and maintenance reimbursements.	12,671
The Adult Education Fund transferred to the General Fund for support.	2,250,000
	<u>\$ 2,516,883</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General	Building	Nonmajor Governmental	Total	Proprietary
Vendor payables	\$ 1,683,003	\$ 5,020,101	\$ 44,758	\$ 6,747,862	\$ 134,344
State apportionment	2,601,187	-	-	2,601,187	-
Salaries and benefits	7,646,233	4,078	81,174	7,731,485	101,466
Total	<u>\$ 11,930,423</u>	<u>\$ 5,024,179</u>	<u>\$ 125,932</u>	<u>\$ 17,080,534</u>	<u>\$ 235,810</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General	Nonmajor Governmental	Total
Federal financial assistance	\$ 13,983	\$ 37,598	\$ 51,581
State categorical aid	107,961	58,394	166,355
Other local	4,871,198	116,803	4,988,001
Total	<u>\$ 4,993,142</u>	<u>\$ 212,795</u>	<u>\$ 5,205,937</u>

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$ 592,810,347	\$ 179,452,370	\$ 76,895,097	\$ 695,367,620	\$ 18,515,478
Premium	16,277,746	12,868,635	1,612,830	27,533,551	1,612,830
Defeasance costs	(4,779,677)	(983,600)	(333,826)	(5,429,451)	(333,826)
OPEB revenue bonds	31,635,000	-	230,000	31,405,000	280,000
Capital leases	197,615	-	197,615	-	-
Supplemental Retirement Plan	-	5,382,425	1,076,485	4,305,940	1,076,485
Equipment Loans	25,003,633	-	10,086,840	14,916,793	1,435,162
Accumulated vacation - net	3,055,669	490,043	-	3,545,712	-
	<u>\$ 664,200,333</u>	<u>\$ 197,209,873</u>	<u>\$ 89,765,041</u>	<u>\$ 771,645,165</u>	<u>\$ 22,586,129</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

In the current fiscal year, the District issued \$100.0 million and \$20.0 million in 2008 General Obligation Bonds Series C and D, respectively, with interest rates ranging from 2.0% to 5.0% to finance construction of school facilities. In addition, the District issued \$20.1 and \$36.7 in 2011 and 2012 refunding bonds, respectively, to advance refund \$39.7 million of outstanding 2002 Series C and \$19.7 in 2003 refunding bonds, respectively, with interest rates ranging from 2.0 to 5.0 percent. The net proceeds of \$60.7 million (after receipt of premiums of \$3.8 million and payment of \$.7 million in underwriting fees, insurance, discounts, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the 2002 Series C and the 2003 Refunding bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt on the financial statements. Although the advance refunding resulted in the recognition of an accounting loss of \$1.0 million for the year ended June 30, 2012, the District in effect reduced its aggregate debt service payments by almost \$6,458,744 million over the next 17 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$5,013,534 million.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2012
Current Interest Bond							
1999 Refunding	2010	3.7%-4.8%	\$ 20,900,000	\$ 2,395,000	\$ -	\$ 1,170,000	\$ 1,225,000
2003 Refunding	2022	3.0%-4.6%	36,795,000	25,385,000	-	21,485,000	3,900,000
2003 Refunding	2025	2.0%-5.3%	97,160,000	74,810,000	-	2,305,000	72,505,000
2002 Series C	2029	4.0%-5.0%	50,000,000	42,475,000	-	40,875,000	1,600,000
2002 Series D	2030	3.5%-5.0%	70,000,000	62,405,000	-	2,150,000	60,255,000
2003 Series F	2036	4.0%-5.0%	50,000,000	46,385,000	-	1,060,000	45,325,000
2006 Refunding	2036	4.0%-5.25%	42,665,000	42,665,000	-	-	42,665,000
2007 Refunding	2020	4.0%-5.0%	11,545,000	11,170,000	-	350,000	10,820,000
2008 Series A	2039	4.0%-5.0%	50,000,000	48,710,000	-	830,000	47,880,000
2002 Series H	2034	5.1%-6.0%	18,000,000	17,825,000	-	175,000	17,650,000
2008 Series B	2040	3.0%-5.0%	100,000,000	100,000,000	-	1,540,000	98,460,000
2010 Refunding	2028	2.0%-5.0%	46,160,000	46,160,000	-	615,000	45,545,000
2008 Series C	2026	4.0%	-	-	20,026,088	1,120,097	18,905,991
2008 Series D	2043	2.0%-5.0%	-	-	100,000,000	-	100,000,000
2011 Refunding	2022	3.8%-4.6%	-	-	20,135,000	50,000	20,085,000
2012 Refunding	2029	2.0%-5.0%	-	-	36,735,000	-	36,735,000
Sub-Total			593,225,000	520,385,000	176,896,088	73,725,097	623,555,991
Capital Appreciation							
1999 Series A	2025	5.3%-6.5%	25,499,993	6,508,145	216,855	3,170,000	3,555,000
2002 Series E	2030	4.2%-5.1%	29,999,529	41,595,677	1,103,857	-	42,699,534
2002 Series G	2032	4.6%-6.9%	19,997,739	24,321,525	1,235,570	-	25,557,095
Sub-Total			75,497,261	72,425,347	2,556,282	3,170,000	71,811,629
Total General Obligation Bonds			\$ 668,722,261	\$ 592,810,347	\$ 179,452,370	\$ 76,895,097	\$ 695,367,620

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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>
2013	\$ 18,515,478	\$ 26,808,680	\$ 41,148,547
2014	20,148,644	28,022,959	39,154,726
2015	20,285,070	27,244,229	39,475,623
2016	22,754,020	27,408,358	41,871,134
2017	23,906,118	26,743,650	50,649,768
2018-2022	147,988,432	124,070,444	272,058,876
2023-2027	175,251,847	95,984,731	271,236,578
2028-2032	108,214,528	87,020,874	195,235,402
2033-2037	75,330,000	23,982,254	99,312,254
2038-2043	62,855,000	7,181,032	70,036,032
subtotal	<u>675,249,137</u>	<u>\$ 474,467,210</u>	<u>\$ 1,120,178,939</u>
Accretion to date	20,118,483		
Total	<u>\$ 695,367,620</u>		

Defeased Bonded Debt

The District has defeased various bond issues by creating separate irrevocable trust funds throughout the years. New debt has been issued and the proceeds have been used to purchase U. S. government securities which were placed in trust funds to pay off older debt. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's Long Term Obligations. As of June 30, 2012, the total amount of defeased debt outstanding but removed from the Long-Term Obligations is \$22,215,533.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2011	Accreted/ Issued	Bonds Outstanding June 30, 2012
2036	5.18%-5.32%	\$32,050,000	\$ 31,635,000	\$ -	\$ 31,405,000

Debt Service Requirements to Maturity

The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 280,000	\$ 1,664,103	\$ 1,944,103
2014	330,000	1,649,599	1,979,599
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
2018-2022	3,680,000	7,471,772	11,151,772
2023-2027	6,045,000	6,267,492	12,312,492
2028-2032	9,265,000	4,337,396	13,602,396
2033-2036	10,450,000	1,440,922	11,890,922
Total	<u>\$ 31,405,000</u>	<u>\$ 27,665,085</u>	<u>\$ 59,070,085</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$3,545,712.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Capital Leases

The District's liabilities on lease agreements are summarized below:

	Capital Leases
Balance, July 1, 2012	\$ 197,615
Payments	197,615
Balance, June 30, 2012	<u>\$ -</u>

Equipment Leases

The District financed its purchases a VOIP system and Solar Panel installation. The District's liabilities for equipment loans are summarized below:

	Equipment Loans
Balance, July 1, 2011	\$ 25,003,633
Payments	10,086,840
Balance, June 30, 2012	<u>\$ 14,916,793</u>

The combined equipment leases have minimum payments as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,435,162	\$ 623,822	\$ 2,970,066
2014	1,478,668	568,475	2,958,226
2015	1,582,531	509,239	3,002,851
2016	1,489,793	445,201	2,846,076
2017	698,557	386,217	1,084,774
2018-2022	3,287,004	1,548,107	4,835,111
2023-2027	4,945,078	538,343	5,483,421
Total	<u>\$ 14,916,793</u>	<u>\$ 4,619,404</u>	<u>\$ 23,180,525</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Supplemental Early Retirement Plan (SERP)

In the current fiscal year, 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 a premium annuity contracts with United of Omaha. The contracts are payable annually as per the schedule shown below:

Year Ending June 30,	SERP Payment
2013	\$ 1,076,485
2014	1,076,485
2015	1,076,485
2016	1,076,485
Total	<u>\$ 4,305,940</u>

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500
Stores inventories	177,138	-	-	-	177,138
Total Nonspendable	<u>179,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,638</u>
Restricted					
Legally restricted programs	1,566,869	-	-	-	1,566,869
Capital projects	-	195,121,387	-	23,627,047	218,748,434
Debt services	-	-	31,026,419	-	31,026,419
Total Restricted	<u>1,566,869</u>	<u>195,121,387</u>	<u>31,026,419</u>	<u>23,627,047</u>	<u>251,341,722</u>
Committed					
Adult education program	-	-	-	2,572,637	2,572,637
Deferred maintenance	-	-	-	170,970	170,970
Postemployment benefits	-	-	-	5,750,661	5,750,661
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,494,268</u>	<u>8,494,268</u>
Assigned					
Capital projects	-	-	-	1,542	1,542
Sites	1,065,969	-	-	-	1,065,969
Total Assigned	<u>1,065,969</u>	<u>-</u>	<u>-</u>	<u>1,542</u>	<u>1,067,511</u>
Unassigned					
	36,884,533	-	-	-	36,884,533
Total	<u>\$ 39,697,009</u>	<u>\$ 195,121,387</u>	<u>\$ 31,026,419</u>	<u>\$ 32,122,857</u>	<u>\$ 297,967,672</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 10 - 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 516 retirees and beneficiaries currently receiving benefits and 1,440 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 \$5,893,200.

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	\$ 4,040,279
Interest on OPEB asset	(1,033,150)
Adjustment to annual required contribution	1,569,778
Annual OPEB cost (expense)	4,576,907
Contributions made	(5,893,200)
Increase in net OPEB asset/obligation	1,316,293
Net OPEB, beginning of year	20,418,222
Net OPEB, end of year	<u>\$ 21,734,515</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2010 through 2012 was as follows:

Year Ended June 30,	Amount Contributed	Annual OPEB Cost	Percentage Contributed	Net OPEB Asset
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%	20,715,854

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 two 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, 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%

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, 2010 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 7.6 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, 2012, was 21 years on a closed basis. As of June 30, 2012, the Trust held net assets in the amount of \$21,110,506, 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, 2012

NOTE 11 - 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, 2012, 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 2012, 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, 2010 to June 30, 2012:

	Health Benefits
Liability Balance, July 1, 2010	\$ 1,415,186
Claims and changes in estimates	3,421,752
Claims payments	(3,563,822)
Liability Balance, June 30, 2011	1,273,116
Claims and changes in estimates	3,436,389
Claims payments	(3,630,468)
Liability Balance, June 30, 2012	1,079,037
Assets available to pay claims at June 30, 2012	\$ 5,489,867

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 12 – 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, 7919 Folsom Blvd., Sacramento, CA 95826.

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 2011-2012 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, 2012, 2011, and 2010, were \$8,389,551, \$8,534,707 and \$9,153,575, 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, 2012

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 2011-2012 was 10.923 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, 2012, 2011, and 2010, were \$2,977,235, \$2,910,714 and \$2,901,685, 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 \$4,414,446, \$4,733,348, and \$5,351,098, (4.855 percent of annual payroll for 2012 and 2011, respectively and 4.267 percent for 2010, of annual payroll) for the years ending June 30, 2012, 2011 and 2010, 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 13 - 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, 2012

During the year ended June 30, 2012, the District made payments of \$1,110,303 and \$2,898,985 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 14 - 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, 2012.

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, 2012.

Construction Commitments

As of June 30, 2012, the District had construction commitments in the amount of \$60,655,859.

REQUIRED SUPPLEMENTARY INFORMATION

EAST SIDE UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 141,307,168	\$ 139,822,368	\$ 140,295,655	\$ 473,287
Federal sources	13,596,116	13,509,722	13,574,033	64,311
Other state sources	27,295,016	29,863,611	31,199,269	1,335,658
Other local sources	9,530,237	11,565,942	13,407,220	1,841,278
Total Revenues¹	191,728,537	194,761,643	198,476,177	3,714,534
EXPENDITURES				
Current				
Certificated salaries	99,609,422	98,298,997	98,716,941	(417,944)
Classified salaries	24,106,615	23,445,501	23,365,909	79,592
Employee benefits	52,306,141	51,797,476	51,590,584	206,892
Books and supplies	4,031,485	3,320,543	3,663,170	(342,627)
Services and operating expenditures	15,711,285	16,182,860	14,854,780	1,328,080
Other outgo	1,349,162	723,597	429,257	294,340
Capital outlay	32,920	74,366	169,518	(95,152)
Debt service - principal	1,214,597	1,214,597	1,445,331	(230,734)
Debt service - interest	2,182,203	2,182,203	1,951,469	230,734
Total Expenditures¹	200,543,830	197,240,140	196,186,959	1,053,181
Excess (Deficiency) of Revenues Over Expenditures	(8,815,293)	(2,478,497)	2,289,218	4,767,715
Other Financing Sources (Uses):				
Transfers in	7,728,279	5,211,250	2,262,671	(2,948,579)
Transfers out	-	(2,670,000)	(2,924,212)	(254,212)
Net Financing Sources (Uses)	7,728,279	2,541,250	(661,541)	(3,202,791)
NET CHANGE IN FUND BALANCE	(1,087,014)	62,753	1,627,677	1,564,924
Fund Balance - Beginning	25,976,933	25,976,933	25,976,933	-
Fund Balance - Ending	\$ 24,889,919	\$ 26,039,686	27,604,610	\$ 1,564,924
Special Reserve - Other than Capital Outlay			12,092,399	
Fund Balance - Ending-GAAP			\$ 39,697,009	

¹ On behalf payments of \$4,944,305 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, 2012**

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, 2010	\$ 27,223,353	\$ 65,140,176	\$ 37,916,823	41.79%	\$ 131,629,079	29%
May 1, 2008	-	38,870,849	38,870,849	0.00%	157,647,780	25%

SUPPLEMENTARY INFORMATION

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through		Federal Expenditures
	Federal CFDA Number	Entity Identifying Number	
U.S. DEPARTMENT OF EDUCATION			
Direct Grants:			
Title IV, Smaller Learning Communities	84.215L	[2]	\$ 534,545
Title IV, Teach American History	84.215X	[2]	282,785
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	3,351,073
Title I, Part C, Migrant Education	84.011	14326	205,487
Title II, Part A, Teacher Quality	84.367	14341	899,922
Title II, Part A, Administrator Training	84.367	14344	7,312
Title II, Part D, Enhancing Education Through Technology	84.318	14334	11,904
Title II, ARRA Part D, Enhancing Education Through Technology	84.386	15019	18,883
Title II, ARRA Part D, Enhancing Education Through Technology	84.386	15126	71,350
Title III, Limited English Proficiency	84.365	14346	596,656
Title III, Immigrant Education Program	84.365	15146	22,333
Title IV, Part A, Safe & Drug-Free Schools and Communities	84.186	14347	(7,620)
Title V, Part A, Innovative Education Strategies	84.298	14354	4,408
Education Jobs Act:	84.410	25152	1,216,840
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,292,487
California Preschool Instructional Network	84.173A	14530	7,276
Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	166,667
Quality Assurance and Focused Monitoring	84.027A	13693	10,867
Workability II, Transition Partnership	84.158	10006	387,705
Carl Perkins Act:			
Technology Secondary II C, Section 131	84.048	14894	492,822
Postsecondary and Adult Section 132	84.048	14893	196,176
Adult Education Act:			
Adult Secondary Education	84.002	13978	103,555
Adult Basic Education and English as Second Language	84.002A	14508	534,601
Subtotal			<u>13,408,034</u>

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012 (Continued)**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed through California Department of Education (CDE):

Child Development Act:

Head Start	93.600	10016	181,906
Medi-Cal Billing Option	93.778	10013	111,552
Federal Child Care, Center-Based	93.575	15136	493,987
Refugee Children Supplemental Assistance Program	93.576	24791	179,740
Subtotal			<u>967,185</u>

U.S. DEPARTMENT OF AGRICULTURE

Passed through California Department of Education (CDE):

Child Nutrition Act:

Basic Breakfast	10.553	13525	10,247
Needy Breakfast	10.553	13390	1,017,842
National School Lunch (Section 4)	10.555	13523	2,186,191
National School Lunch (Section 11)	10.555	13524	289,688
Meal Supplement	10.556	13568	172,325
Commodity Supplemental Food Program ^[1]	10.555	^[2]	302,483
Subtotal			<u>3,978,776</u>

U.S. DEPARTMENT OF DEFENSE

Direct Grants:

Junior Reserve Officer Training Corp; JROTC	12.357	^[2]	520,139
Total			<u>\$18,874,134</u>

[1] Not recorded in the financial statements.

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2012

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, three adult education sites, one independent study program, four continuation schools and eight child care centers.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Frank Biehl	President	2014
Patricia Martinez Roach	Vice President	2012
J. Manual Herrera	Clerk	2014
Van Le	Member	2014
Lan Nguyen	Member	2012

ADMINISTRATION

Dan Moser	Superintendent
Marcus Battle	Associate Superintendent of Business Services & Operations
Cathy Giammona	Associate Superintendent of Human Resource and Instructional Services
Juan Cruz	Assistant Superintendent of Instructional Services

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Amended Second Period Report</u>	<u>Annual Report</u>
SECONDARY		
Regular classes	21,215	21,068
Continuation education	606	594
Home and hospital	16	18
Special education	959	949
Total Secondary	<u>22,796</u>	<u>22,629</u>

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirement</u>	<u>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	61,893	60,174	64,800	63,000	63,149	175	Complied
Grade 10	61,893	60,174	64,800	63,000	63,149	175	Complied
Grade 11	61,893	60,174	64,800	63,000	63,149	175	Complied
Grade 12	61,893	60,174	64,800	63,000	63,149	175	Complied

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report.

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget)			
	2013 ¹	2012	2011	2010
GENERAL FUND⁴				
Revenues	\$ 190,891,432	\$ 198,476,177	\$ 204,374,702	\$ 208,852,211
Other sources	4,000,000	2,262,671	4,448,787	2,500,000
Total Revenues and Other Sources	194,891,432	200,738,848	208,823,489	211,352,211
Expenditures	198,872,575	196,186,959	194,686,432	208,572,433
Other uses and transfers out	-	2,924,212	-	2,700,000
Total Expenditures and Other Uses	198,872,575	199,111,171	194,686,432	211,272,433
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,981,143)	\$ 1,627,677	\$ 14,137,057	\$ 79,778
ENDING FUND BALANCE	\$ 23,623,467	\$ 27,604,610	\$ 25,976,933	\$ 11,839,876
AVAILABLE RESERVES ²	\$ 32,896,844	\$ 36,884,533	\$ 34,207,840	\$ 16,800,957
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	16.54%	18.52%	17.57%	7.95%
LONG-TERM OBLIGATIONS	\$ 749,059,036	\$ 771,645,165	\$ 664,200,333	\$ 660,683,738
AVERAGE DAILY ATTENDANCE AT P-2	22,718	22,796	23,159	23,633

The General Fund balance has increased by \$15,764,734 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$3,981,143. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$110,961,427 over the past two years.

Average daily attendance has decreased by 837 over the past two years. A decrease of 78 ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to an audit.

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

³ On-behalf payments of \$4,944,305, \$4,414,446 and \$4,733,348 for 2012, 2011 and 2010 have been excluded from actual amounts reported above and the calculation of available reserves percentage for fiscal years ending June 30, 2012, 2011, and 2010 respectively.

⁴ 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, 2012**

<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

See accompanying note to supplementary information.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Retiree Benefits Special Reserve Fund
ASSETS				
Deposits and investments	\$ 256,027	\$ 368,074	\$ 170,703	\$ 5,746,707
Receivables	3,232,784	7,214	267	3,954
Total Assets	\$3,488,811	\$ 375,288	\$ 170,970	\$ 5,750,661
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 65,274	\$ 41,369	\$ -	\$ -
Due to other funds	850,000	122,024	-	-
Deferred revenue	900	211,895	-	-
Total Liabilities	916,174	375,288	-	-
Fund Balances:				
Restricted	-	-	-	-
Committed	2,572,637	-	170,970	5,750,661
Assigned	-	-	-	-
Total Fund Balances	2,572,637	-	170,970	5,750,661
Total Liabilities and Fund Balances	\$3,488,811	\$ 375,288	\$ 170,970	\$ 5,750,661

See accompanying note to supplementary information.

<u>Capital Facilities Fund</u>	<u>State School Building Fund</u>	<u>County School Facilities Fund</u>	<u>Special Reserve Capital Outlay Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 3,277,358	\$ 4,903	\$ 20,330,745	\$ 1,540	\$ 30,156,057
4,825	8	28,497	2	3,277,551
<u>\$ 3,282,183</u>	<u>\$ 4,911</u>	<u>\$ 20,359,242</u>	<u>\$ 1,542</u>	<u>\$ 33,433,608</u>
\$ 11,978	\$ 4,911	\$ 2,400	\$ -	\$ 125,932
-	-	-	-	972,024
-	-	-	-	212,795
<u>11,978</u>	<u>4,911</u>	<u>2,400</u>	<u>-</u>	<u>1,310,751</u>
3,270,205	-	20,356,842	-	23,627,047
-	-	-	-	8,494,268
-	-	-	1,542	1,542
<u>3,270,205</u>	<u>-</u>	<u>20,356,842</u>	<u>1,542</u>	<u>32,122,857</u>
<u>\$ 3,282,183</u>	<u>\$ 4,911</u>	<u>\$ 20,359,242</u>	<u>\$ 1,542</u>	<u>\$ 33,433,608</u>

EAST SIDE UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Retiree Benefit Special Reserve Fund
REVENUES				
Federal sources	\$ 638,156	\$ 683,169	\$ -	\$ -
Other State sources	6,506,343	953,566	-	-
Other local sources	256,792	46,279	1,283	18,036
Total Revenues	<u>7,401,291</u>	<u>1,683,014</u>	<u>1,283</u>	<u>18,036</u>
EXPENDITURES				
Current				
Instruction	2,659,097	1,460,448	-	-
Instruction-related activities:				
Supervision of instruction	432,369	2,669	-	-
Instructional library and technology	44,477	-	-	-
School site administration	1,870,719	147,180	-	-
Pupil services:				
All other pupil services	66,141	22,417	-	-
Administration:				
All other administration	213,926	-	-	-
Plant services	361,906	50,300	34,314	-
Facility acquisition and construction	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>5,648,635</u>	<u>1,683,014</u>	<u>34,314</u>	<u>-</u>
Excess (Deficiency) of				
Revenues Over Expenditures	<u>1,752,656</u>	<u>-</u>	<u>(33,031)</u>	<u>18,036</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	254,212
Transfers out	(2,250,000)	-	-	-
Net Financing Sources (Uses)	<u>(2,250,000)</u>	<u>-</u>	<u>-</u>	<u>254,212</u>
NET CHANGE IN FUND BALANCES	(497,344)	-	(33,031)	272,248
Fund Balance - Beginning	3,069,981	-	204,001	5,478,413
Fund Balance - Ending	<u>\$2,572,637</u>	<u>\$ -</u>	<u>\$ 170,970</u>	<u>\$ 5,750,661</u>

See accompanying note to other supplementary information.

Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Special Reserve Capital Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,321,325
-	-	11,139,215	-	18,599,124
580,645	53	88,728	(48,812)	943,004
580,645	53	11,227,943	(48,812)	20,863,453
-	-	-	-	4,119,545
-	-	-	-	435,038
-	-	-	-	44,477
-	-	-	-	2,017,899
-	-	-	-	88,558
-	-	-	-	213,926
295,338	-	-	-	741,858
19,899	2,530	446,229	-	468,658
-	-	9,069,124	-	9,069,124
-	-	349,713	-	349,713
315,237	2,530	9,865,066	-	17,548,796
265,408	(2,477)	1,362,877	(48,812)	3,314,657
-	-	-	-	254,212
-	-	-	-	(2,250,000)
-	-	-	-	(1,995,788)
265,408	(2,477)	1,362,877	(48,812)	1,318,869
3,004,797	2,477	18,993,965	50,354	30,803,988
\$ 3,270,205	\$ -	\$ 20,356,842	\$ 1,542	\$ 32,122,857

EAST SIDE UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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 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 either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, 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 past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the School 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, 2012

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 Balance 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 Balance.

INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited 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 as of and for the year ended June 30, 2012, which collectively comprise East Side Union High School District's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

Internal Control Over Financial Reporting

Management of East Side Union High School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered East Side Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Side Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the East Side Union High School District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited East Side Union High School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of East Side Union High School District's major Federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of East Side Union High School District's management. Our responsibility is to express an opinion on East Side Union High School District's compliance based on our audit.

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. Our audit does not provide a legal determination of East Side Union High School District's compliance with those requirements.

In our opinion, East Side Union High School District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of East Side Union High School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered East Side Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2012



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited East Side Union High School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies*, applicable to East Side Union High School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of East Side Union High School District's management. Our responsibility is to express an opinion on East Side Union High School District's compliance based on our audit.

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 2011-2012* 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.

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, 2012.

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	6	Yes
County offices of education	3	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	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

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</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 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 programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.556</u>	<u>Child Nutrition Cluster</u>
<u>84.048</u>	<u>Career and Technical Education</u>
<u>84.215</u>	<u>Fund for the Improvement of Education</u>
<u>12.357</u>	<u>Junior Reserve Officer Training</u>
<u>84.002</u>	<u>Adult Education – Basic Grants to States</u>
<u>84.365</u>	<u>English Language Acquisition Grants</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 566,224</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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

2011-1 Code 30000

ASB Accounting

Finding

Evergreen High School

- It was noted that the site deposited some District lease of facilities funds in the study body account.
- Revenue potential forms were not prepared for fund raising activities.
- Student store inventory was not reconciled to the books.
- Monthly bank reconciliation was not performed timely.

Recommendation

We recommend that the District provide additional oversight for student body activities. Fund raising activities should have proper controls such as revenue potentials. In addition, the District should enforce a policy of having all site cash collections properly deposited into the District accounts rather than student body funds.

Current Status

Implemented

Federal Awards Findings

2011-2 Code 50000

Private School Participation – Education Through Technology Grant – ARRA – 84.386

Finding

The District did not include in the letters sent to the private schools information about the available opportunity to participate in this grant.

Recommendation

We recommend additional review procedures of the notifications sent to private schools to ensure that all federal grants having such requirement are included.

Current Status

Implemented

2011-3 Code 50000

Reporting –Special Education Cluster CFDA 84.027, 84.173, 84.391 (ARRA), 84.392 (ARRA)

Finding

Based on our testing, it appears that internal controls related to reporting for Special Education IEP

EAST SIDE UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

forms are either missing or outdated, which is the primary support for the number of students reported as being served by the special education program. However, we were able to perform alternative audit procedures to support the number of special education students by tracing them to the District's general attendance system.

Recommendation

We recommend that the District provide timely IEP evaluations for students who receive Special Education services.

Current Status

Implemented

State Awards Findings

2011-4 Code 72000

Finding

During our review of the SARC, we noted inconsistencies between the facility evaluation done by the County Office of Education and the information reported on the SARC.

Recommendation

We recommend that the District update the SARC for school facility evaluations performed by the County Office of Education or the District personnel to ensure that the SARC is in compliance with the Williams Settlement reporting requirements.

Current Status

Implemented