EVERGREEN SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

EVERGREEN SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2016

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Evergreen School District
San Jose, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

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

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

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

Other Information

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

The Schedule of Expenditures of Federal Awards and the accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 28, 2016

DISTRICT PROFILE

Evergreen School District (District) was formed in 1860 and is one of the oldest school districts in Santa Clara County. The District is located along the Mount Hamilton mountain range in the southeastern part of San Jose and extends to the west to Highway 101 and to the north to Tully Road. It encompasses an area of approximately 32 square miles and has an estimated population of approximately 90,000. The District has fifteen elementary schools and three middle schools. The Average Daily Attendance in 2015-2016 was 11,962, a decrease of 534 ADA from 2014-2015.

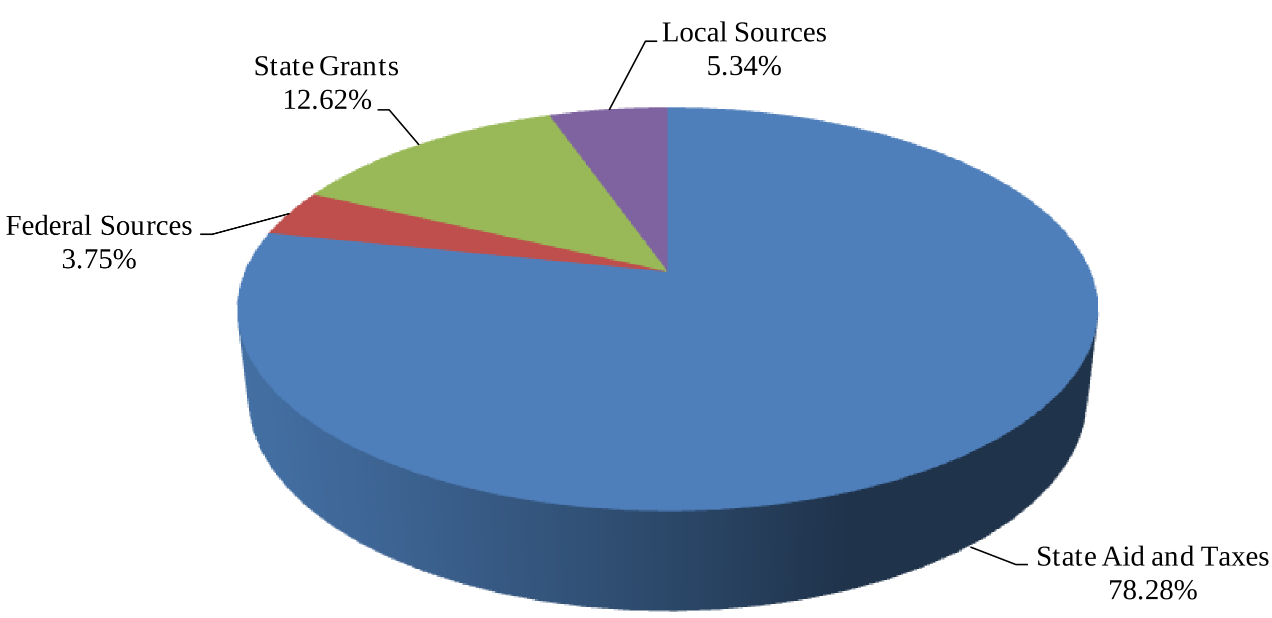
All of our eighteen schools have been identified by the California State Department of Education as California Distinguished Schools and several have achieved this recognition multiple times. Twelve have also been identified by the United States Department of Education as National Blue Ribbon Schools.

FINANCIAL HIGHLIGHTS

Local control funding formula is the largest component of the District's General fund budget. The District received a basic allocation per unit of average daily attendance (ADA) of $7,582 which is an increase of $806 per ADA or an increase of 11.8% from the 2014-15 funding level.

The General Fund also received funds from various State, Federal and other local programs. (See Chart -1).

Chart - 1
Evergreen School District
General Fund Revenue Source



2016 RESULTS OF OPERATIONS

Major Governmental Fund Statements

General Fund
The District's General Fund revenue, excluding Special Reserves Fund for Retiree Benefits, was higher than expenditures by $8,086,471. The unrestricted General Fund ending fund balance was $18,817,642. Of this amount, $3,424,483 is unassigned but reserved for economic uncertainties. The available reserves at June 30, 2016 were $14,492,211. By way of comparison, available reserves at June 30, 2015 were $8,906,865, thus the District has increased its available reserves by $5,585,346 or approximately 63%.

The District's Retiree Benefits Special Reserve Fund balance has increased by $12,115 to $1,713,466. The increase represents the interest revenue received. This fund is combined with the General Fund in the basic financial statement starting 2010-11 to comply with GASB 54.

Building Fund
The District's Building Fund balance has increased by $45,234,672 to $54,317,021. The increase resulted from the $50 million new general obligation bond issuance.

Bond Interest and Redemption Fund
The District's Bond Interest and Redemption Fund balance has increased by $7,614,033 to $15,670,972. The increase resulted from additional taxes levied to pay for general obligation bonds.

Non Major Governmental Fund Statements

The non major governmental funds financial statements are displayed in this annual report in the supplementary information section of this report.

Cafeteria Fund
The District's Cafeteria Fund balance has decreased by $162,320 to $135,916.

Deferred Maintenance Fund
The District's Deferred Maintenance Fund balance has increased by $24 to $3,443. The increase represents the interest revenue received.

Capital Facilities Fund
The District's Capital Facilities Fund balance has increased by $123,302 to $1,386,816. The increase was due to developer fees collected and some interest revenue received.

Mello Roos Debt Service Fund
The District's Mello Roos Debt Service Fund balance has increased by $2,564 to $1,296,267. The increase resulted mainly from the collection of special taxes that were used to pay down the debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
    - The *governmental funds* statements tell how basic services like instruction related activities and pupil services were financed in the short term as well as what remains for future spending.
    - *Proprietary funds* are classified as enterprise or internal services. The District operates a Self-Insurance fund that is accounted for in an internal service fund.
    - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the government-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's General Fund budget, both the adopted and final version, with year-end actual.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, we provide reconciliations between the Government-wide financial statements and the fund financial statements that explain the relationship (or differences) between them.
- *Proprietary Funds* – Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was a deficit $20.54 million at June 30, 2016, an increase of $5.38 million from 2014-2015. However, without the effect of these long-term items, our unrestricted net position would include a $4.71 million board committed amount to fund the postemployment benefits, $3.42 million earmarked for economic uncertainty along with $11.06 million unassigned amount. (Board committed, assigned and reserved for economic uncertainty are reported as unrestricted in the Statement of Net Position). Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use the net position for day-to-day operations.

Table 1
Evergreen School District
Net Position
(in millions of dollars)

	Governmental Activities	
	2016	2015
Current and other assets	$ 102.89	$ 40.51
Capital assets	158.5	161.36
Total Assets	261.39	201.87
Deferred amount on refunding	1.19	1.35
Pension activities	9.39	5.70
Total Deferred Outflows of Resources	10.58	7.05
Current liabilities	19.29	12.13
Long-term liabilities	263.93	201.86
Total Liabilities	283.22	213.99
Pension activities	9.30	20.85
Total Deferred Inflows of Resources	9.30	20.85
Net Position		
Net investment in capital assets	54.28	60.06
Restricted	20.58	13.81
Unrestricted		
Board committed	4.71	1.70
Reserved for uncertainty	3.42	3.15
Unassigned	(103.53)	(104.64)
Total Net Position	$ (20.54)	$ (25.92)

Note: Totals may not add due to rounding.

Changes in Net Position

The results of this year's and previous year's operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the statement and compares the current and prior year revenues and expenses. The comparison includes depreciation expense allocated to each function. The amount of depreciation allocated is detailed at Note 6 to the financial statements. Table 3 further analyzes the cost of the District's largest functions, net of revenues, grants and contributions generated by the activities.

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities for the current year was $135.52 million. However, the amount that our taxpayers ultimately financed for those activities through local taxes and other general revenues was only $119.02 million because of certain grants and contributions along with charges for services that financed a portion of those expenses.

Major funding sources for governmental activities included charges for services to those who benefited from certain programs of $1.55 million; operating grants and contributions from federal and state agencies, and other local organizations of $14.93 million; Federal and State Aid, including Local Control Funding Formula funding of $49.9 million.

For the prior year, the cost of all of our governmental activities was $129.86 million. However, the amount that our taxpayers ultimately financed for those activities through local taxes and other general revenues was only $117.3 million.

For the prior year, major funding sources for governmental activities included charges for services to those who benefited from certain programs of $1.49 million; operating grants and contributions from federal and state agencies; and other local organizations of $11.04 million; Federal and State Aid, including LCFF funding of $44.9 million.

Table 2
Evergreen School District
Changes in Net Position
(in millions of dollars)

	2016	2015	Changes
Program Revenues:			
Charges for services	$ 1.55	$ 1.49	$ 0.06
Operating granting and contributios	14.93	11.04	3.89
General Revenues:			
Federal and state sources	58.88	51.55	7.33
Property taxes	60.84	54.74	6.10
Other general revenues	4.69	2.64	2.05
Total Revenues	$ 140.89	$ 121.46	$ 19.43
Functional Expenses:			
Instruction and instruction-related activities	$ 96.06	$ 93.77	$ 2.29
Home-to-school transportation	1.85	1.27	0.58
Food services	3.88	3.77	0.11
All other pupil services	2.68	2.37	0.31
Administration	7.80	7.39	0.41
Plant services	7.41	7.29	0.12
Interest on long-term obligations	6.66	5.33	1.33
Other outgo	1.12	0.61	0.51
Depreciation	8.05	8.07	(0.02)
Total Expenses	$ 135.52	$ 129.86	$ 5.65
Changes in Net Position	$ 5.38	$ (8.40)	$ 13.79

Note: Totals may not add due to rounding.

Table 3 presents the net cost of each of the District's largest functions. As discussed above, net cost shows the financial burden that was required to support primarily by state LCFF revenue sources and local property taxes.

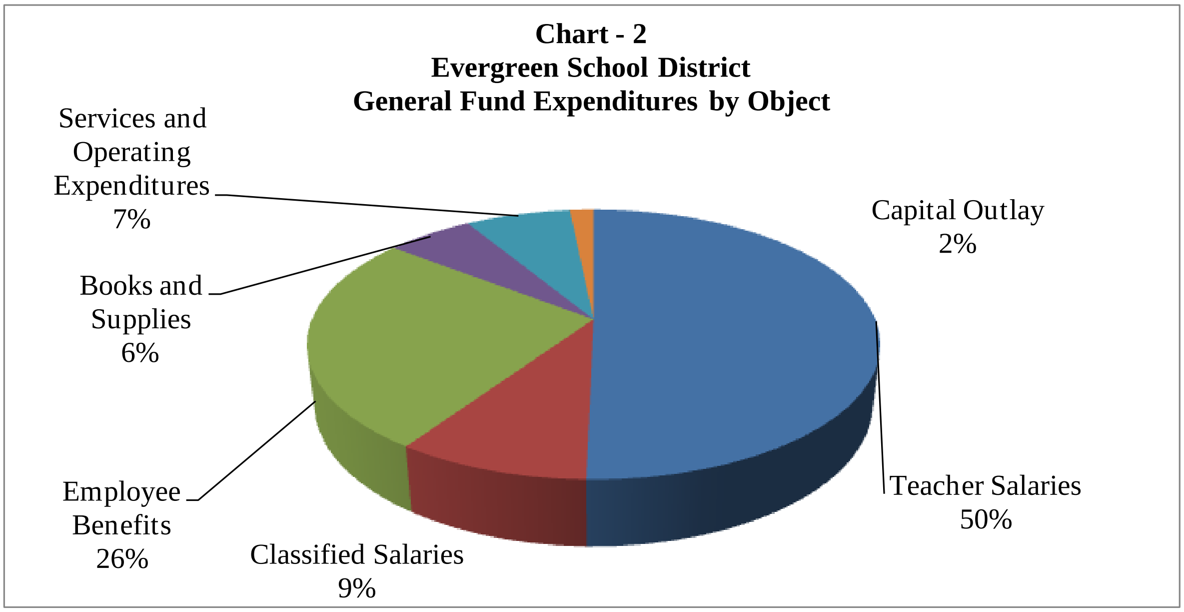
Table 3
Evergreen School District
Net Cost of Governmental Activities
(in millions of dollars)

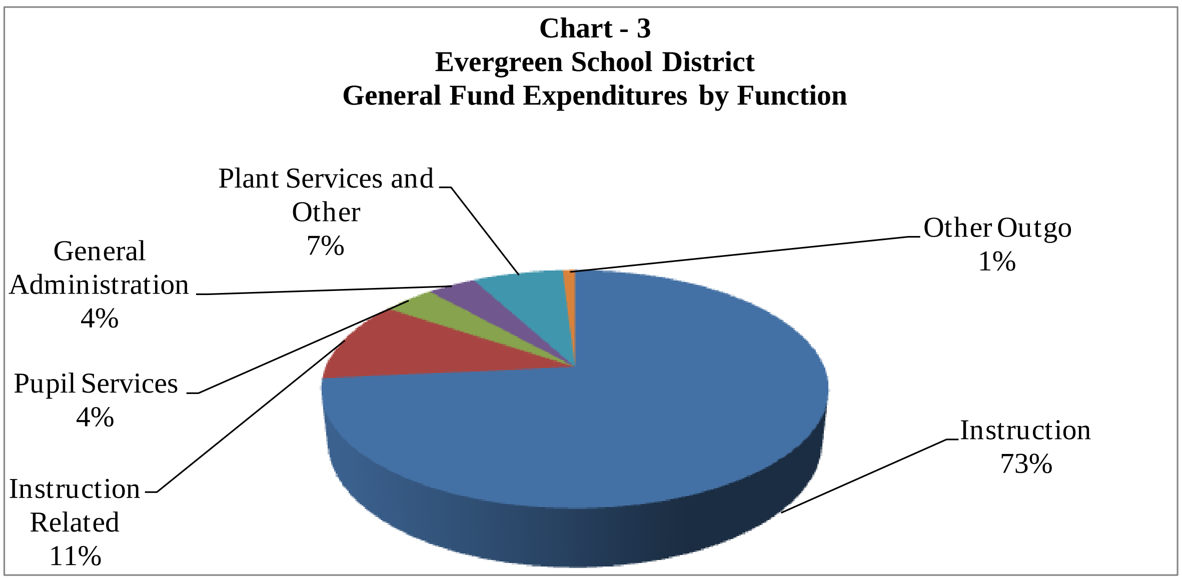
	2016	2015	Changes
Instruction and instruction-related activities	$ 84.62	$ 86.13	$ (1.51)
Home-to-school transportation	1.85	1.22	0.63
Food services	0.15	0.13	0.02
All other pupil services	1.78	1.56	0.22
Administration	7.67	7.27	0.40
Plant services	7.32	7.20	0.12
Interest on long-term obligations	6.66	5.33	1.33
Other outgo	0.93	0.42	0.51
Depreciation	8.05	8.07	(0.02)
Total Net Cost of Governmental Activities	$ 119.03	$ 117.33	$ 1.70

Note: Totals may not add due to rounding.

Charts 2 and 3 provide a breakdown of the General Fund expenditures, excluding Special Reserve Fund for Postemployment Benefits. As is common with virtually all school districts, the majority of expenditures in the General Fund are for salaries and benefits of approximately 85%. From a functional cost standpoint, Chart 3 shows that approximately 84% of total General Fund expenditures are on instruction and instruction-related activities.

The District must spend at least 60% of its total certificated salaries component on classroom instruction activities. For the current fiscal year, the District spent approximately 70% of the District's salaries on classroom instruction activity.





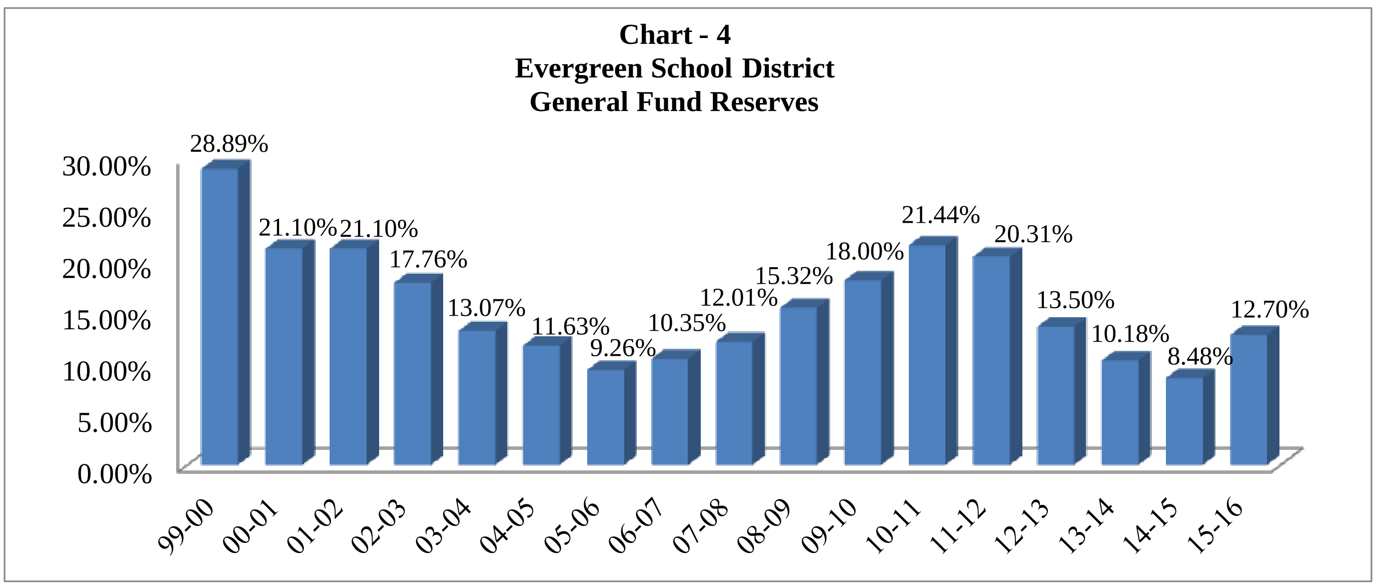
Available Reserves

The General Fund unappropriated fund balance of $11.06 million and the 3% reserve of $3.43 million equals the total available reserve balance of $14.49 million. In the Government-wide statement of net position, committed and assigned ending fund balance are considered unrestricted, but they are not a component of available reserves.

General Fund Budgetary Highlights

Chart 4 illustrates an operating deficit from 1999-2000 through 2015-2016. One time funding and continuing program reductions in 2006-2007 and 2007-2008 created a positive operating balance for the unrestricted reserve. The increases in 2008-2009 through 2010-2011 unrestricted reserves were due to the flexibility provision of transferring State Restricted Tier III program balances and one time revenue from Federal ARRA funds. The District used all available one-time revenues in the amount of $3.1 million and continued to utilize State allowed flexibilities for the District's general operations during fiscal year 2011-2012. The District had operating deficits in 2011-2012 through 2014-2015. The 2016-2016 is the first year the District had an operating surplus since fiscal year 2010-2011.

The District reserves declined since 2011-2012 but inched up to 12.7% in the current year; the District is working on its long-range budgeting process to address the structural issues of operating deficits. We are working with all District stakeholders to prioritize the expenditure allocations that will focus on the services to students and balancing the budget.



For the 2015-2016 fiscal year, the actual increase in fund balance was $.59 million higher than what originally was budgeted for, which is a 0.52% variance of the total General Fund budget.

The following table summarizes the General Fund final budget to actual information for the year ended June 30, 2016.

Table 4
Evergreen School District
Budgetary Comparison Summary

	Final Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues	$ 120,030,415	$ 122,235,918	$ 2,205,503
Total Expenditures	$ 112,625,054	$ 114,149,447	$ (1,524,393)

The unfavorable variances of $1,524,393 in total expenditures and favorable variances of $2,205,503 in total revenues were primarily due to state on-behalf pension contribution and Bay Area Air Quality Grant received.

Actual revenues in Table 4 does not include Special Reserve Fund for Postemployment Benefits that is combined into the General Fund in the basic financial statements for presentation purpose.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-2016 the District had invested $270.09 million in a broad range of capital assets, including school buildings, athletic facilities and computer and audio-visual equipment. (See Table 5) This amount represents a net increase of $4.09 million from last year. (More detailed information about capital assets can be found in Note 6 to the financial statements).

Table 5
Evergreen School District
Capital Assets at Year-end
(in millions of dollars)

	2016	2015	Changes
Land	$ 26.87	$ 26.87	$ -
Construction in progress	2.54	-	2.54
Buildings and improvements	235.39	233.53	1.86
Equipment and vehicles	5.29	5.60	(0.31)
Total	$ 270.09	$ 266.00	$ 4.09

Capital Projects

In November of 1989, the voters of the District approved authorization of $35 million in general obligation bonds that were used for building multipurpose rooms at seven of the oldest schools, expanding library rooms, upgrading fields, removing of asbestos and building a Central Kitchen facility for the student lunch program. The District has issued this entire authorization. The District established a Community Facilities District and in September 1992 issued Special Tax Bonds in the amount of $7,380,000 that helped fund the construction of Silver Oak Elementary School. In November of 1997, the voters approved a $60 million general obligation bond for the acquisition, construction and improvement of certain school facilities. As of July 1, 2004, the District had issued all bonds from this authorization.

In November of 2006, the voters approved a $150 million general obligation bond, Measure I, based on a specific project list. In February 2007 the District issued the first series of bonds for $30 million. The second series of bonds issued in February 2009 for the amount of $29,998,712. The District had not issued all bonds from this authorization, but upon passage of Measure M in 2014, the District will not issue any Bonds pursuant to the authorization remaining under Measure I and considered such authorization forfeit, null and void.

A $100 million general obligation bond, Measure M, was passed by Evergreen voters on November 4, 2014. Measure M is meant to provide a safe, modern learning environment that supports academic achievements by upgrading and constructing classrooms and hands-on science and technology labs and restrooms, increasing campus security and improving overall energy efficiency. In the current fiscal year, the District issued $50 million of the $100 million authorized amount.

Current or recent capital projects include:

- New construction for the Lobo School of Innovation at Quimby
- New construction and modernization at Cedar Grove Elementary School
- Kinder playground renovation at Katherine Smith Elementary School
- Forum floor replacement at Tom Matsumoto Elementary School
- Shade structure at Laurelwood Elementary School, Silver Oak Elementary and Montgomery Elementary School
- Playmatting installation at Holly Oak Elementary, Silver Oak Elementary and Montgomery Elementary School

Long-Term Debt

At year-end the District had $158.58 million in general obligation bonds, a decrease of $49.88 from prior year and $22.12 million in other long-term debt outstanding – a decrease of 2.93 from last year - as shown in Table 6. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

In addition to the long-term debt required to be recorded in the Statement of Net Position, the District is obligated under contract provisions to provide health benefits to retirees (see Note 11 and 13).

Table 6
Evergreen School District
Outstanding Long-Term Debt
(in millions of dollars)

	2016	2015	Changes
General obligation bonds	$ 158.58	$ 108.70	$ 49.88
Mello-Roos special tax bonds	1.13	1.65	(0.52)
Arbitrage liabilities	0.02	0.02	-
Compensated absence	0.30	0.27	0.03
OPEB obligation	20.67	17.25	3.42
Total	$ 180.70	$ 127.89	$ 52.81

Note: Totals may not add due to rounding.

Net Pension Liability (NPL)

Per Government Accounting Standards Board (GASB) Statement Number 68 – *Accounting and Reporting for Pensions*, the District recognized its proportionate share of its unfunded pension liabilities with CalPERS and CalSTRS. The District as a result recognized over $95 million in pension liabilities on the financial statements. These amounts were presented as long-term liabilities and are funded as a component of the annual required contribution that District makes to CalPERS/CalSTRS on behalf of its employees.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2015-2016 fiscal year was impacted by declined enrollment; on-going increases in step and column movement on the teacher's salary schedule; higher medical and liability insurance premiums; special education encroachment; and other expenditure increases. This is the first year the District recognized a surplus and an increase in unrestricted fund balance since 2011. We anticipated the unrestricted fund balance to increase in our 2016-17 budget projection that is due to one-time mandate cost discretionary funding allocation in 2016-17. The District estimates continuing deficit spending in the Unrestricted General Fund in 2017-18 and 2018-19. In order to control deficit spending, the District must find additional revenues and/or control the cost increases.

The District's long range projections show a consistent decline in student population for the next five years. Even with increase State revenues under the new Local Control Funding Formula, the long term budget projections anticipate deficits caused by reduced Federal funding, declining enrollment, health benefit increases, and step movement on the teacher salary schedule.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, employees, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Billing (Nelly) Yang – Chief Business Officer, Evergreen School District, 3188 Quimby Road, San Jose, CA 95148.

EVERGREEN SCHOOL DISTRICT

STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	$ 97,541,388
Receivables	3,931,813
Prepaid items	1,236,417
Stores inventories	185,226
Capital assets not depreciated	29,416,288
Capital assets, net of accumulated depreciation	129,087,629
Total Assets	261,398,761
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,190,975
Deferred outflow from pension activties	9,389,148
Total Deferred Outflows of Resources	10,580,123
LIABILITIES	
Accounts payable	4,280,700
Interest payable	1,766,907
Unearned revenue	1,415,013
Long-term obligations	
Current portion of long-term obligation other than pensions	11,830,322
Noncurrent portion of long-term obligation other than pensions	168,867,220
Aggregate net pension liability	95,058,312
Total Long-Term Obligations	275,755,854
Total Liabilities	283,218,474
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow from pension activties	9,301,835
Total Deferred Inflows of Resources	9,301,835
NET POSITION	
Net investment in capital assets	54,281,403
Restricted for:	
Educational programs	3,220,405
Debt service	15,200,332
Food services	135,916
Capital projects	1,386,816
Self insurance	637,183
Unrestricted	(95,403,480)
Total Net Position	$ (20,541,425)

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

EVERGREEN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities:				
Instruction	$ 89,305,020	$ -	$ 10,084,822	$ (79,220,198)
Instruction-related activities:				
Supervision of instruction	4,772,803	-	1,106,385	(3,666,418)
Instructional library, media, and technology	1,041,698	-	3,402	(1,038,296)
School site administration	7,537,444	-	240,015	(7,297,429)
Pupil services:				
Home-to-school transportation	1,973,334	-	-	(1,973,334)
Food services	4,146,507	1,519,289	2,211,463	(415,755)
All other pupil services	2,862,492	-	897,396	(1,965,096)
Administration:				
Data processing	543,174	-	-	(543,174)
All other administration	7,550,630	-	137,218	(7,413,412)
Plant services	7,987,684	34,155	55,944	(7,897,585)
Ancillary services	41,324	-	3,783	(37,541)
Interest on long-term obligations	6,664,462	-	-	(6,664,462)
Other outgo	1,085,097	-	192,481	(892,616)
Total Governmental Activities	$ 135,511,669	$ 1,553,444	$ 14,932,909	(119,025,316)

General revenues and subventions:	
Property taxes, levied for general purposes	45,789,229
Property taxes, levied for debt service	12,576,625
Taxes levied for other specific purposes	2,473,614
Federal and state aid not restricted to specific	58,878,374
Interest and investment earnings	456,069
Interagency revenues	3,329,076
Miscellaneous	905,232
Subtotal, General Revenues	124,408,219
Change in Net Position	5,382,903
Net Position - Beginning	(25,924,328)
Net Position - Ending	$ (20,541,425)

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

EVERGREEN SCHOOL DISTRICT

GOVERNMENTAL FUNDS – BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 22,858,889	$ 55,326,937	$ 15,649,678
Receivables	3,696,419	127,997	21,294
Due from other funds	421,660	437,671	-
Prepaid items	1,236,417	-	-
Stores inventories	39,664	-	-
Total Assets	$ 28,253,049	$ 55,892,605	$ 15,670,972
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 2,532,610	$ 1,575,584	$ -
Due to other funds	553,913	-	-
Unearned revenue	1,415,013	-	-
Total Liabilities	4,501,536	1,575,584	-
Fund Balances:			
Nonspendable	1,291,081	-	-
Restricted	3,220,405	54,317,021	15,670,972
Committed	4,713,466	-	-
Assigned	34,350	-	-
Unassigned	14,492,211	-	-
Total Fund Balances	23,751,513	54,317,021	15,670,972
Total Liabilities and Fund Balances	$ 28,253,049	$ 55,892,605	$ 15,670,972

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

Non Major Governmental Funds	Total Governmental Funds
$ 3,185,996	$ 97,021,500
85,050	3,930,760
-	859,331
-	1,236,417
145,562	185,226
$ 3,416,608	$ 103,233,234
$ 172,506	$ 4,280,700
421,660	975,573
-	1,415,013
594,166	6,671,286
145,762	1,436,843
2,683,083	75,891,481
-	4,713,466
3,443	37,793
(9,846)	14,482,365
2,822,442	96,561,948
$ 3,416,608	$ 103,233,234

EVERGREEN SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		**$ 96,561,948**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 270,091,484	
Accumulated depreciation is	(111,587,567)	
Net Capital Assets		158,503,917
Expenditures relating to contributions made to pension plans were recognized on the governmental funds, but are deferred on the statement of net position.		9,389,148
In governmental funds, unmatured interest on long-term debt is recognized in the period when payment is due. Unmatured interest on long-term debt is recognized when it is incurred in the statement of net position.		(1,766,907)
An internal service fund is used by the District's management to charge the costs of the insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		637,183
The difference between projected and actual pension plan investment earnings and projected and actual experience are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(9,301,835)
Unamortized deferred charge on refunding is recognized as a deferred outflow on the statement of net position. The deferred charges are recognized in the governmental funds when they were paid.		1,190,975
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities are reported in the statement of net position. Long-term obligations at year-end consist of:		
General obligation bonds	158,583,713	
Net OPEB obligations	20,670,473	
Mello Roos special tax bonds	1,125,000	
Arbitrage liability	21,797	
Compensated absences (vacations)	296,559	
Net pension liability	95,058,312	
Total Long-Term Obligations		(275,755,854)
Total Net Position - Governmental Activities		**$ (20,541,425)**

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

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EVERGREEN SCHOOL DISTRICT

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

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local control funding formula	$ 95,689,627	$ -	$ -
Federal sources	4,589,415	-	-
Other state sources	15,426,374	-	88,212
Other local sources	6,542,617	48,500	12,544,655
Total Revenues	122,248,033	48,500	12,632,867
EXPENDITURES			
Current			
Instruction	83,856,051	-	-
Instruction-related activities:			
Supervision of instruction	4,483,283	-	-
Instructional library, media and technology	979,670	-	-
School site administration	7,082,767	-	-
Pupil services:			
Home-to-school transportation	1,852,472	-	-
Food services	-	-	-
All other pupil services	2,688,774	-	-
Administration:			
Data processing	510,568	-	-
All other administration	3,718,313	-	-
Plant services	7,851,167	477,718	-
Facility acquisition and construction	2,500	4,336,110	-
Ancillary services	38,785	-	-
Other outgo	1,085,097	-	-
Debt service			
Principal	-	-	5,235,000
Interest and other	-	-	3,100,688
Total Expenditures	114,149,447	4,813,828	8,335,688
Excess (Deficiency) of Revenues Over Expenditures	8,098,586	(4,765,328)	4,297,179
Other Financing Sources			
Other sources	-	50,000,000	3,316,854
Net Financing Sources (Uses)	-	50,000,000	3,316,854
NET CHANGE IN FUND BALANCES	8,098,586	45,234,672	7,614,033
Fund Balance - Beginning	15,652,927	9,082,349	8,056,939
Fund Balance - Ending	$ 23,751,513	$ 54,317,021	$ 15,670,972

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

Non Major Governmental Funds	Total Governmental Funds
$ -	$ 95,689,627
1,878,536	6,467,951
139,958	15,654,544
2,588,374	21,724,146
4,606,868	139,536,268
-	83,856,051
-	4,483,283
-	979,670
-	7,082,767
-	1,852,472
3,889,505	3,889,505
-	2,688,774
-	510,568
-	3,718,313
90,821	8,419,706
56,735	4,395,345
-	38,785
-	1,085,097
525,000	5,760,000
81,237	3,181,925
4,643,298	131,942,261
(36,430)	7,594,007
-	53,316,854
-	53,316,854
(36,430)	60,910,861
2,858,872	35,651,087
$ 2,822,442	$ 96,561,948

EVERGREEN SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		**$ 60,910,861**
Amounts Reported for Governmental Activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays.		
Capital outlays	$ 5,381,913	
Depreciation expense and disposal	(8,234,684)	
Net Expense Adjustment		(2,852,771)
Proceeds received from issuance of bonds is a revenue in the governmental funds, but it increases long-term obligations in the statement of net position and does not affect the statement of activities.		(50,000,000)
Premiums received from sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net position and does not effect the statement of activities.		(3,809,354)
Amortization of defeasance costs is an expense on the statement of activities and does not impact the governmental funds.		(163,919)
Payment of principal of General Obligation Bond is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net position and does not affect the statement of activities.		5,235,000
Amortization of the premium on long-term debt is not recognized in the governmental funds. In the government-wide statements, it is deferred and amortized over the life of the related debt.		965,322
Payment of principal on Mello Roos bonds is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net position and does not affect the statement of activities.		525,000

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

EVERGREEN SCHOOL DISTRICT

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

Payment of the retiree benefits is recorded as an expenditure in the governmental funds. However, the difference between the annual required contributions and the actual benefit payments made, is recorded as an additional expense in the statement of activities. The actual amount of the contribution was less than the annual required contributions.	(3,420,060)
Accreted interest is not an expenditure in the governmental funds, but it increases the long term liabilities in the statement of net position and is reflected as additional interest expense in the statement of activities.	(2,270,286)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount actually paid.	(27,942)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	727,348
Interest on long-term obligations is recorded as an expenditure in the governmental funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(555,832)
An internal service fund is used by the District's management to charge the costs of the worker's compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	119,536
Change in Net Position of Governmental Activities	**$ 5,382,903**

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

EVERGREEN SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 519,888
Receivables	1,053
Due from other funds	116,242
Total Current Assets	637,183
NET POSITION	
Restricted for insurance programs	637,183
Total Net Position	$ 637,183

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

EVERGREEN SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-district premiums	$ 1,199,493
OPERATING EXPENSES	
Insurance premiums	1,083,251
Operating Income	116,242
NONOPERATING REVENUES	
Interest income	3,294
Change in Net Position	119,536
Total Net Position - Beginning	517,647
Total Net Position - Ending	$ 637,183

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

EVERGREEN SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 1,174,279
Cash payments for insurance claims	(1,083,251)
Net Cash Provided by Operating Activities	91,028
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,825
Net Cash Provided from Investing Activities	2,825
Net Increase in Cash and Cash Equivalents	93,853
Cash and Cash Equivalents - Beginning	426,035
Cash and Cash Equivalents - Ending	$ 519,888
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 116,242
Adjustments to reconcile operating income to net cash used for operating activities:	
Due from other fund	(25,214)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 91,028

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

EVERGREEN SCHOOL DISTRICT

FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

	Agency Fund
ASSETS	
Deposits and investments	$ 277,787
LIABILITIES	
Due to student groups	$ 277,787

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Evergreen School District (District) was organized in 1860 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 K – 8 as mandated by the State and/or Federal agencies. The District operates fifteen elementary, and three middle schools.

A reporting entity is comprised of the primary government, 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.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. 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 special revenue funds in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, 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 function effectively as extensions of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance and revenues of $1,713,466, $1,713,466 and $12,115 respectively.

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).

Non Major Governmental Funds

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

Cafeteria Fund The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program *(Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program *(Education Code* Sections 38091 and 38100).

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Mello Roos Debt Service Fund The Mello Roos Debt Service Fund is used to account for interest and principal redemption of debt.

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

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

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

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District on a cost reimbursement basis. The District established an insurance administration fund during the year 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 has only one Fiduciary fund which is an Associated Student Body fund.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which 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, for each governmental function of the District. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function, and excludes fiduciary activity. 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.

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental 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.

Governmental Funds All governmental funds are accounted for using the 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 financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total 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. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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. For the District, available means expected to be received within 90 days of fiscal year-end.

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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, 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.

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

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

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 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 debt, which has 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.

Investments

Investments held at June 30, 2016 with original maturities greater than one year with exception of cash in country treasury are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments that are not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County Treasury are determined by the County.

Prepaid Items

Prepaid Items 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 expenditure in the benefiting period.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. 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. In the government-wide statement of net position and activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Compensated Absences

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

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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide fund 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 governmental 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 governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds and other long-term obligations are recognized as liabilities in the governmental fund financial statements when paid.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight line method.

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Fund Balances - Governmental Funds

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

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

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

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/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.

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are in-district premium. Operating expenses are necessary costs incurred to provide the good or service, that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Transfers between government funds in the government-wide financial statements are eliminated.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

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 1st of each year. The District Governing Board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

Property Tax

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

Change in Accounting Principles

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

The District has implemented the provisions of this Statement as of June 30, 2016.

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

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

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

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

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

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental funds	$	97,021,500
Proprietary funds		519,888
Fiduciary funds		277,787
Total Deposits and Investments	$	97,819,175

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

Cash on hand and in banks	$	295,505
Cash in revolving		15,200
Investments		97,508,470
Total Deposits and Investments	$	97,819,175

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 District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of amortized cost provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Cost	Fair Value	Maturity
First American Treasury Mutual Fund	$ 1,656	$ 1,656	One to five years
Transamerica Investment Contract	654,902	654,902	One to five years
County Pooled Investment Funds	96,851,912	97,028,622	One to five years
Total	$ 97,508,470	$ 97,685,180	

Investments restricted for debt covenants are excluded from maturity restrictions per Government code 53600.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Pool is not rated as of June 30, 2016.

Investment Type	Cost	Fair Value	Rating as of Year End AAA	Rating as of Year End Unrated
First American Treasury	$ 1,656	$ 1,656	$ -	$ 1,656
Transamerica Obligation Fund	654,902	654,902	654,902	-
County Pooled Investment Funds	96,851,912	97,028,622	-	97,028,622
Total	$ 97,508,470	$ 97,685,180	$ 654,902	$ 97,030,278

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, 2016, District bank balances of $26,339 were exposed to custodial credit risk because they were uninsured but were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the same of the District.

NOTE 3 – FAIR VALUE MEASUREMENTS

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

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

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

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

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

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

		Fair Value Measurements Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
First American Treasury	$ 1,656	$ -	$ -	$ -	$ 1,656
Investment Contract	654,902	-	-	-	654,902
County Pool	96,851,912	-	-	-	96,851,912
Total	$ 97,508,470	$ -	$ -	$ -	$ 97,508,470

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

NOTE 4 – RECEIVABLES

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

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Proprietary Fund	Total
Federal Government						
Categorical aid	$ 1,608,977	$ -	$ -	$ 67,886	$ -	$ 1,676,863
State Government						
Categorical aid	276,852	-	-	5,068	-	281,920
Lottery	1,410,601	-	-	-	-	1,410,601
Local Government						
Interest	83,591	113,082	19,417	2,614	1,053	219,757
Other Local Sources	316,398	14,915	1,877	9,482	-	342,672
Total	$ 3,696,419	$127,997	$ 21,294	$ 85,050	$ 1,053	$ 3,931,813

NOTE 5 – PREPAID ITEMS

Prepaid items at June 30, 2016 consist of health insurance premiums paid to various vendors totaling $1,236,417 in the General Fund.

NOTE 6 – CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 26,873,690	$ -	$ -	$ 26,873,690
Construction in progress	-	2,542,598	-	2,542,598
Total Capital Assets Not Being Depreciated	26,873,690	2,542,598	-	29,416,288
Capital Assets Being Depreciated:				
Buildings and improvements	233,529,701	1,858,675	-	235,388,376
Furniture and equipment	5,602,983	980,640	1,296,803	5,286,820
Total Capital Assets Being Depreciated	239,132,684	2,839,315	1,296,803	240,675,196
Total Capital Assets	266,006,374	5,381,913	1,296,803	270,091,484
Less Accumulated Depreciation:				
Buildings and improvements	99,981,086	7,737,971	-	107,719,057
Furniture and equipment	4,668,600	307,923	1,108,013	3,868,510
Total Accumulated Depreciation	104,649,686	8,045,894	1,108,013	111,587,567
Governmental Activities Capital Assets, Net	$ 161,356,688	$ (2,663,981)	$ 188,790	$ 158,503,917

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

Governmental Activities	
Instruction	$ 5,741,129
Supervision of instruction	306,944
Instructional library, media, and technology	67,072
School site administration	484,915
Home-to-school transportation	126,828
Food services	266,291
All other pupil services	184,084
Ancillary services	2,656
All general administration	254,571
Data processing	34,956
Plant services	576,448
Total Depreciation Expenses Governmental Activities	$ 8,045,894

NOTE 7 – INTERFUND TRANSACTIONS

Interfund Receivable/Payables for the year ended June 30, 2016 consisted of the following:

		Due From			
		General Fund	Building Fund	Proprietary Funds	Total
Due To	General Fund	$ -	$ 437,671	$ 116,242	$ 553,913
	Non Major Governmental Funds	421,660	-	-	421,660
	Total	$ 421,660	$ 437,671	$ 116,242	$ 975,573

NOTE 8 – DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are a consumption of net position by the District that is applicable to a future reporting period. The changes in the District's deferred outflow of resources during the year consisted of the following:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Deferred charges on refunding	$ 1,354,894	$ -	$ 163,919	$ 1,190,975
Deferred outflow from pension activities	5,696,543	9,389,148	5,696,543	9,389,148
Total	$ 7,051,437	$ 9,389,148	$ 5,860,462	$ 10,580,123

NOTE 9 – ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
Vendor payables	$ 1,672,769	$ 1,575,584	$ 63,400	$ 3,311,753
State apportionment	696,131	-	-	696,131
Salaries and benefits	73,595	-	-	73,595
Other payables	90,115	-	109,106	199,221
Total	$ 2,532,610	$ 1,575,584	$ 172,506	$ 4,280,700

NOTE 10 – UNEARNED REVENUE

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

	General Fund
Federal financial assistance	$ 38,000
Other local	1,377,013
Total	$ 1,415,013

NOTE 11 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General Obligation Bonds					
Current interest bond	$ 67,110,000	$ 50,000,000	$ 5,235,000	$ 111,875,000	$ 10,315,000
Capital appreciation bonds	32,997,308	2,270,286	-	35,267,594	-
Premium on issuance of bond	8,597,087	3,809,354	965,322	11,441,119	965,322
Sub Total	108,704,395	56,079,640	6,200,322	158,583,713	11,280,322
Compensated Absences	268,617	27,942	-	296,559	-
Arbitrage Liability	21,797	-	-	21,797	-
Mello Roos	1,650,000	-	525,000	1,125,000	550,000
Net OPEB Obligation	17,250,413	5,043,180	1,623,120	20,670,473	-
Total	$ 128,399,591	$ 61,150,762	$ 8,348,442	$ 180,697,542	$ 11,830,322

Payments on the general obligation bonds and Mello Roos are made by the bond interest and redemption fund and debt service fund, respectively, with local revenues. The accrued vacation and OPEB obligations will be paid by the fund for which the employee worked. Arbitrage liability will be paid by the Building fund.

Arbitrage Rebate Liability

This liability represents the 10% excess interest income earned by the District from the proceeds of its 2007 general obligation bond issues over those currently allowed by IRS regulations. The rebate liability of $21,797 will be due no longer than April 30, 2017 (60 days after March 1, 2017, the end of the tenth Bond year).

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue Series	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued / Accreted	Redeemed / Defeased	Bonds Outstanding June 30, 2016
2003	Refunding	9/1/15	3-4.25%	$ 9,670,000	$ 270,000	$ -	$ 270,000	$ -
2007	2006 A	8/1/31	4.0-6.0%	30,000,000	18,550,000	-	2,150,000	16,400,000
2009	2006 B	8/1/33	5.125%	7,500,000	7,500,000	-	-	7,500,000
2009	2006 B Cap	8/1/31	3.26-6.53%	22,498,712	32,997,308	2,270,286	-	35,267,594
2012	Refunding	9/1/21	2.0-4.0%	7,700,000	7,450,000	-	310,000	7,140,000
2015	Refunding	9/1/24	2.0-5.0%	33,990,000	33,340,000	-	2,505,000	30,835,000
2016	2016	8/1/45	2.0-5.0%	50,000,000	-	50,000,000	-	50,000,000
			Subtotal	$ 161,358,712	$ 100,107,308	$ 52,270,286	$ 5,235,000	147,142,594
							Unamortized Premiums	11,441,119
							Unamortized Loss on Defeasance	(1,190,975)
							Total	$ 157,392,738

Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 10,315,000	$ 4,521,477	$ 14,836,477
2018	11,085,000	4,278,051	15,363,051
2019	8,409,374	4,321,002	12,730,376
2020	6,237,576	4,368,775	10,606,351
2021	6,079,100	4,542,251	10,621,351
2022-2026	28,802,036	28,815,858	57,617,894
2027-2031	18,469,220	32,413,024	50,882,244
2032-2036	17,059,256	8,345,110	25,404,366
2037-2041	11,070,000	4,413,000	15,483,000
2042-2046	16,175,000	1,710,100	17,885,100
Total	133,701,562	$ 97,728,648	$ 231,430,210
Accretion to date	13,441,032		
	$ 147,142,594		

Mello Roos Special Tax Bond

The Mello-Roos Bonds were issued on behalf of the Community Facilities District No. 92-1 pursuant to the Mello-Roos Community Facilities Act of 1982. The bonds are included in the schedule of long-term debt and included in the government-wide statement of net position and are included in the governmental Debt Service fund to provide information on the receipts and debt service payments for reporting under the bond covenants. The District has covenanted for the benefit of the owners of the Bonds that, in the event of delinquencies in the payment of Special Tax installment will initiate action to foreclose the lien, provided delinquencies are in excess of three percent (3%) of the amount of the Special Taxes levied in the applicable Fiscal Year. Delinquencies did not exceed 3% for 2015-2016.

The official statement of the refunding special tax bonds series 1998 "The Bonds are limited obligations of the District payable solely from special tax revenues pledged therefore and from amounts held in certain funds pursuant to the fiscal agent agreement. Neither the faith and credit nor the taxing power of the District, the State of California or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the bonds. The issuance of the bonds shall not directly, indirectly or contingently obligate the District, the State of California or any political subdivision thereof to levy or pledge any form of taxation whatsoever, other than the special taxes, or to make any appropriation for their payment".

The bonds mature through 2018, as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 550,000	$ 40,374	$ 590,374
2018	575,000	13,656	588,656
Total	$ 1,125,000	$ 54,030	$ 1,179,030

NOTE 12 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	$ 15,000	$ -	$ -	$ 200	$ 15,200
Stores inventories	39,664	-	-	145,562	185,226
Prepaid expenditures	1,236,417	-	-	-	1,236,417
Total Nonspendable	1,291,081	-	-	145,762	1,436,843
Restricted					
Educational programs	3,220,405	-	-	-	3,220,405
Capital projects	-	54,317,021	-	1,386,816	55,703,837
Debt services	-	-	15,670,972	1,296,267	16,967,239
Total Restricted	3,220,405	54,317,021	15,670,972	2,683,083	75,891,481
Committed					
Post employement benefits	4,713,466	-	-	-	4,713,466
Total Committed	4,713,466	-	-	-	4,713,466
Assigned					
Other	34,350	-	-	3,443	37,793
Total Assigned	34,350	-	-	3,443	37,793
Unassigned					
Reserve for economic uncertainties	3,424,483	-	-	-	3,424,483
Remaining unassigned	11,067,728	-	-	(9,846)	11,057,882
Total Unassigned	14,492,211	-	-	(9,846)	14,482,365
Total	$ 23,751,513	$ 54,317,021	$ 15,670,972	$ 2,822,442	$ 96,561,948

NOTE 13 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 64 retirees and beneficiaries currently receiving benefits, and 894 active plan members. Management employees who retire after age 55 with at least 15 years of service are entitled to benefits. If the retiree dies before age 65, benefits will continue to be paid for the surviving spouse until the date when the retiree would have reached age 65. If the retiree has at least 10 years of service at retirement, but not 15 years, the retiree may enroll in a District-sponsored plan but must pay the full premium for coverage. Certificated employees who retire after age 55 with at least 15 years of service are entitled to the same benefits as management employees. Classified employees who retire after age 58 with at least 15 years of service are entitled to benefits.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed $1,623,120 to the plan. Management and Certificated employees receive a contribution from the District amounting to the employee's choice of Kaiser or Blue Shield single employee monthly rate. Classified employees receive a flat $300 contribution regardless of their health plan election.

Annual OPEB Cost and Net OPEB Obligation

The District's annual 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 obligation to the Plan:

Annual required contribution	$ 5,514,260
Interest on net OPEB obligation	690,017
Adjustment to annual required contribution	(1,161,097)
Annual OPEB cost	5,043,180
Funding by the District	
Pay-as-you-go amount	(852,399)
Current year subsidized premiums	(770,721)
Total contributons made	(1,623,120)
Increase in net OPEB obligation	3,420,060
Net OPEB obligation, beginning of year	17,250,413
Net OPEB obligation, end of year	$ 20,670,473

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended	Annual OPEB Cost	Annual Contribution	Percentage Contributed	Net OPEB Obligation
2016	$ 5,043,180	$ 1,623,120	32%	$ 20,670,473
2015	4,795,787	1,711,147	36%	17,250,413
2014	4,867,299	1,643,464	34%	14,165,773

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	$ -	$ 40,133,096	$ 40,133,096	0%	$ 63,359,043	63%
July 1, 2012	-	38,240,571	38,240,571	0%	63,140,005	61%
July 1, 2010	-	31,312,829	31,312,829	0%	62,937,126	50%

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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), based on the long-term rate of earnings that the District expects to earn on its investments. Healthcare cost trend rates were assumed to increase at a rate of 5.2 percent. The UAAL is being amortized on a closed basis method using the level dollar method. The remaining amortization period at July 1, 2014, was 24 years.

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance for property damage with coverage up to a maximum of $1 billion, subject to various policy sublimits generally ranging from $1 million to $50 million and deductible of $10,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to $1 million per occurrence and $2 million aggregate, with excess liability coverage with $24 million per occurrence limit, subject to deductible of $5,000 per occurrence. Employee health benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District was a member of South Bay Area Schools Insurance Authority (SBASIA) for property and liability insurance coverage. The joint powers agreement provides that SBASIA will be self-sustaining through member premiums and will insure through commercial insurance companies for claims in excess of self-insured levels. 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 2016, the District participated in the CSAC Excess Insurance Authority JPA an insurance purchasing pool. The intent of the CSAC Excess Insurance Authority JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the CSAC Excess Insurance Authority JPA. 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 CSAC Excess Insurance Authority JPA. 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 CSAC Excess Insurance Authority JPA. Participation in the CSAC Excess Insurance Authority JPA is limited to districts that can meet the CSAC Excess Insurance Authority JPA's selection criteria. The firm of Alliant Insurance Services provides administrative, cost control, and actuarial services to the JPA.

Employee Medical Benefits

The District has contracted with Kaiser and Blue Shield to provide employee health benefits. The rates are set through an annual calculation process.

NOTE 15 – EMPLOYEE RETIREMENT SYSTEMS

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

The District reported its proportionate share of the net pension liabilities, pension expense and deferred inflows of resources for each of the above plans and a deferred outflows of resources for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 81,132,322	$ 6,458,419	$ 7,969,346	$ 6,219,403
CalPERS	13,925,990	2,930,729	1,332,489	1,337,955
Total	$ 95,058,312	$ 9,389,148	$ 9,301,835	$ 7,557,358

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP. The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

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

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were $6,083,935.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:		
District's proportionate share of net pension liability	$	81,132,322
State's proportionate share of the net pension liability associated with the District		42,910,055
Total	$	124,042,377

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.1205 percent and 0.1199 percent, resulting in a net increase in the proportionate share of 0.0006 percent.

For the year ended June 30, 2016, the District recognized pension expense of $6,219,403. In addition, the District recognized pension expense and revenue of $3,848,059 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurment date	$ 6,083,935	$ -
Differences between projected and actual earnings on plan investments	-	6,613,604
Differences between expected and actual experience in the measurement of the total pension liability	-	1,355,742
Change in proportions	374,484	-
Total	$ 6,458,419	$ 7,969,346

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

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2017	$ (2,737,239)
2018	(2,737,239)
2019	(2,737,239)
2020	1,598,113
Total	$ (6,613,604)

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquididty	1%	0.00%
Total	100%	

Actuarial Methods and Assumptions

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

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

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined be assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns.

The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquididty	1%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 122,503,493
Current discount rate (7.60%)	$ 81,132,322
1% increase (8.60%)	$ 46,749,543

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a precentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were $1,879,770.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $13,925,990. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0945 percent and 0.0922 percent, resulting in a net increase in the proportionate share of 0.0023 percent.

For the year ended June 30, 2016, the District recognized pension expense of $1,337,955. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurment date	$ 1,879,770	$ -
Differences between projected and actual earnings on plan investments	-	476,838
Change in assumption	-	855,651
Differences between expected and actual experience	795,891	-
Change in proportions	255,068	-
Total	$ 2,930,729	$ 1,332,489

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

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2017	$ (349,545)
2018	(349,545)
2019	(349,545)
2020	571,797
Total	$ (476,838)

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

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2017	$ 67,348
2018	67,348
2019	60,612
Total	$ 195,308

Actuarial Methods and Assumptions

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

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

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

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%
Total	100%	

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 22,665,708
Current discount rate (7.65%)	$ 13,925,990
1% increase (8.65%)	$ 6,658,330

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Cedar Grove Phase I: Classroom Replacement and Modernization	$ 905,238	August 2017
Total	$ 905,238	

NOTE 17 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the South Bay Area School Insurance Authority (SBASIA), the CSAC Excess Insurance Authority (CSACEIA), and the East Valley Transportation Agency (EVT). The District pays an annual premium to the applicable entity for its worker’s compensation, property liability coverage, or services provided. The relationships between 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 Chief Financial Officer to the Governing Board of SBASIA, CSACEIA and Director of Operations Support Services, Rob Smiley to the EVT.

During the year ended June 30, 2016, the District made payments of $633,155, $1,083,251, and $592,135 to SBASIA, CSACEIA, and EVT, respectively for services rendered.

REQUIRED SUPPLEMENTARY INFORMATION

EVERGREEN SCHOOL DISTRICT

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

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
REVENUES				
Local control funding formula	$ 95,200,295	$ 95,633,577	$ 95,689,627	$ 56,050
Federal sources	4,470,747	4,701,566	4,589,415	(112,151)
Other state sources	10,945,221	14,241,040	15,426,374	1,185,334
Other local sources	4,040,505	5,454,232	6,530,502	1,076,270
Total Revenues	114,656,768	120,030,415	122,235,918	2,205,503
EXPENDITURES				
Current				
Certificated salaries	57,791,132	57,679,391	57,446,785	232,606
Classified salaries	10,352,703	10,330,626	10,485,782	(155,156)
Employee benefits	26,235,618	28,914,202	29,620,724	(706,522)
Books and supplies	4,860,901	6,709,202	6,687,711	21,491
Services and operating expenditures	7,937,437	7,804,603	8,093,563	(288,960)
Other outgo	334,426	1,187,030	1,085,097	101,933
Capital outlay	-	-	729,785	(729,785)
Total Expenditures	107,512,217	112,625,054	114,149,447	(1,524,393)
NET CHANGE IN FUND BALANCES	7,144,551	7,405,361	8,086,471	681,110
Fund Balance - Beginning	13,951,576	13,951,576	13,951,576	-
Fund Balance - Ending	$ 21,096,127	$ 21,356,937	22,038,047	$ 681,110
Special Reserve Fund For Postemployment Benefits			1,713,466	
Fund Balance - General Fund GAAP Basis			$ 23,751,513	

See accompanying note to required supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	$ -	$ 40,133,096	$ 40,133,096	0%	$ 63,359,043	63%
July 1, 2012	-	38,240,571	38,240,571	0%	63,140,005	61%
July 1, 2010	-	31,312,829	31,312,829	0%	62,937,126	50%

Note: The District has committed funds in Retiree Benefit Special Reserve fund and the general fund in the amount of $4,713,466 as of June 30, 2016. These amounts although committed for payment of the OPEB liability are revocable and hence are not included in the actuarial value of assets.

See accompanying note to required supplementary information.

EVERGREEN SCHOOL DISTRICT

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

	2016	2015
CalSTRS		
District's proportion of the net pension liability	0.1205%	0.1199%
District's proportionate share of the net pension liability	$ 81,132,322	$ 70,072,007
State's proportionate share of the net pension liability associated with the District	42,910,055	42,312,503
Total	$ 124,042,377	$ 112,384,510
District's covered - employee payroll	$ 50,656,968	$ 54,001,099
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	160%	130%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability (asset)	0.0945%	0.0922%
District's proportionate share of the net pension liability (asset)	$ 13,925,990	$ 10,470,130
District's covered - employee payroll	$ 10,472,116	$ 9,735,849
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	133%	108%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying note to required supplementary information.

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

	2016	2015
CalSTRS		
Contractually required contribution	$ 6,083,935	$ 4,498,323
Contributions in relation to the contractually required contribution	6,083,935	4,498,323
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 56,700,927	$ 50,656,968
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	$ 1,614,577	$ 1,198,219
Contributions in relation to the contractually required contribution	1,614,577	1,198,219
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 11,167,585	$ 10,472,116
Contributions as a percentage of covered - employee payroll	14.46%	11.44%

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

See accompanying note to required supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

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

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

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

Schedule of District Contributions

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

Changes in Benefit Terms

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

Changes in Assumptions

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

SUPPLEMENTARY INFORMATION

EVERGREEN SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I - Basic grants low-income and neglected	84.010	14981	$ 1,314,048
Migrant education - regular program	84.011	14326	111,928
Migrant education - summer program	84.011	10005	38,394
Title I - Part C, Migrant Education - Even Start	84.011	14768	5,485
Improving teacher quality	84.367	14341	417,573
English language acquisition	84.365	10084	191,080
Special education cluster:			
Basic local assistance	84.027	13379	2,027,435
Local assistance, private school	84.027	10115	2,579
Preschool grants	84.173	13430	65,642
Preschool local entitlement	84.027A	13682	118,481
Mental health allocation plan	84.027A	14468	125,917
Preschool staff development	84.173A	13431	720
Total U.S Department of Education			4,419,282
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child nutrition cluster			
Espcially needy breakfast	10.553	13526	271,793
National school lunch	10.555	13524	1,606,743
National school lunch - Commodity[1]	10.555	13396	306,226
Total U.S. Department of Agriculture			2,184,762
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Passed through CDE:			
Medical Assistance Program	93.778	10013	170,143
Total Federal Grants			$ 6,774,187

[1] Commodities are not recorded on the financial statement.

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

The District was organized in 1860 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 K – 8 as mandated by the State and/or Federal agencies. The District operates fifteen elementary, and three middle schools.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Bonnie Mace	President	2016
Jim Zito	President Pro Tem	2018
Sylvia Alvarez	Clerk	2018
Vince Songcayawon	Trustee	2016
Sylvia Arenas	Trustee	2018

ADMINISTRATION

Katherine Gomez	Superintendent
Biling (Nelly) Yang	Chief Business Officer

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	4,709.75	4,717.93
Fourth through sixth	4,293.03	4,295.49
Seventh and eighth	2,944.18	2,942.29
Total Regular ADA	11,946.96	11,955.71
Extended Year Special Education		
Transitional kindergarten through third	3.93	3.93
Fourth through sixth	1.98	1.98
Seventh and eighth	1.98	1.98
Total Extended Year Special Education	7.89	7.89
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.56	0.53
Fourth through sixth	4.68	4.44
Seventh and eighth	1.00	0.96
Total Special Education, Nonpublic, Nonsectarian Schools	6.24	5.93
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.38	0.38
Seventh and eighth	0.37	0.37
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.75	0.75
Total ADA	11,961.84	11,970.28

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2015-2016 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	Not applicable	Complied
Grades 1 - 3	50,400				
Grade 1		50,400	180	Not applicable	Complied
Grade 2		50,400	180	Not applicable	Complied
Grade 3		50,400	180	Not applicable	Complied
Grades 4 - 6	54,000				
Grade 4		54,000	180	Not applicable	Complied
Grade 5		54,000	180	Not applicable	Complied
Grade 6		54,000	180	Not applicable	Complied
Grades 7 - 8	54,000				
Grade 7		58,392	180	Not applicable	Complied
Grade 8		58,392	180	Not applicable	Complied

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

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

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Retiree Benefit Special Reserve Fund
FUND BALANCE		
Balance, June 30, 2016, Unaudited Actuals	$ 22,038,047	$ 1,713,466
To conform with GASB 54, the District consolidated Fund 20, Retiree Benefit Special Reserve Fund into the General Fund.	1,713,466	(1,713,466)
Balance, June 30, 2016, Audited Financial Statements	$ 23,751,513	$ -

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

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

	(Budget) 2017 [1]	2016	2015	2014
GENERAL FUND[3]				
Revenues	$ 116,125,801	$ 122,235,918	$ 103,340,085	$ 103,340,085
Expenditures	115,133,088	114,149,447	105,007,150	105,007,150
INCREASE (DECREASE) IN FUND BALANCE	$ 992,713	$ 8,086,471	$ (1,667,065)	$ (2,768,771)
ENDING FUND BALANCE	$ 23,030,761	$ 22,038,048	$ 13,951,577	$ 15,618,642
AVAILABLE RESERVES[2]	$ 15,457,754	$ 14,492,211	$ 8,906,865	$ 10,692,221
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3]	13.43%	12.70%	8.48%	10.18%
LONG-TERM OBLIGATIONS	$ 168,867,220	$ 180,697,542	$ 127,895,222	$ 128,399,591
K-8 AVERAGE DAILY ATTENDANCE AT P-2	11,522	11,962	12,496	12,851

The General Fund balance has increased by $6,419,406 over the past two years. The increase mainly is because the District received $6.3 million one-time unrestricted Mandated Block grant and $0.86M one-time restricted Educator Effectiveness grant during the 2015-2016 fiscal year. The fiscal year 2016-2017 budget projects a fund balance increase of $992,713. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years, but anticipates incurring an operating surplus during the 2016-2017 fiscal year. Total long-term obligations have increased by $52,297,951 over the past two years.

Average daily attendance has decreased by 889 over the past two years. A decrease of 440 ADA is anticipated during fiscal year 2016-2017.

[1] Budget 2017 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances contained within the General Fund.
[3] General Fund amounts excluded activity related to the consolidation of the Retiree Benefits Special Reserve fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

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EVERGREEN SCHOOL DISTRICT

NON MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	$ 502,904	$ 3,436	$ 1,384,029
Receivables	81,426	7	2,787
Stores inventories	145,562	-	-
Total Assets	$ 729,892	$ 3,443	$ 1,386,816
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 172,316	$ -	$ -
Due to other funds	421,660	-	-
Total Liabilities	593,976	-	-
Fund Balances:			
Nonspendable	145,762	-	-
Restricted	-	-	1,386,816
Assigned	-	3,443	-
Unassigned	(9,846)	-	-
Total Fund Balances	135,916	3,443	1,386,816
Total Liabilities and Fund Balances	$ 729,892	$ 3,443	$ 1,386,816

See accompanying note to supplementary information.

Mello Roos Debt Service Fund	Total Non Major Governmental Funds
$ 1,295,627	$ 3,185,996
830	85,050
-	145,562
$ 1,296,457	$ 3,416,608
$ 190	$ 172,506
-	421,660
190	594,166
-	145,762
1,296,267	2,683,083
-	3,443
-	(9,846)
1,296,267	2,822,442
$ 1,296,457	$ 3,416,608

EVERGREEN SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES			
Federal sources	$ 1,878,536	$ -	$ -
Other state sources	139,958	-	-
Other local sources	1,796,130	24	183,419
Total Revenues	3,814,624	24	183,419
EXPENDITURES			
Current			
Pupil services:			
Food services	3,889,505	-	-
Plant services	87,439	-	3,382
Facility acquisition and construction	-	-	56,735
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	3,976,944	-	60,117
NET CHANGE IN FUND BALANCES	(162,320)	24	123,302
Fund Balance - Beginning	298,236	3,419	1,263,514
Fund Balance - Ending	$ 135,916	$ 3,443	$ 1,386,816

See accompanying note to supplementary information.

Mello Roos Debt Service Fund	Total Non Major Governmental Funds
$ -	$ 1,878,536
-	139,958
608,801	2,588,374
608,801	4,606,868
-	3,889,505
-	90,821
-	56,735
525,000	525,000
81,237	81,237
606,237	4,643,298
2,564	(36,430)
1,293,703	2,858,872
$ 1,296,267	$ 2,822,442

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Federal revenues reported in the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 6,467,951
Commodities are not recorded on the financial statements.	10.555	306,226
Total Schedule of Expenditures of Federal Awards		$ 6,774,177

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

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.

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

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Evergreen School District
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Evergreen School District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2016.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 28, 2016

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

Governing Board
Evergreen School District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Evergreen School District’s (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2016. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 28, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Evergreen School District
San Jose, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Unmodified Opinion

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

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

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

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

The District does not offer Independent Study Program; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer Middle or Early College Program; therefore, we did not perform procedures related to the Middle or Early College Program.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

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

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

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

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

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 28, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No
Identification of major federal programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173, 84.27A, 84.173A	Special Education Cluster

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

EVERGREEN SCHOOL DISTRICT

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

None reported.

EVERGREEN SCHOOL DISTRICT

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

None reported.

EVERGREEN SCHOOL DISTRICT

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

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