VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

To the Governing Board of the
Evergreen School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Evergreen School District (District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 30, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during ended June 30, 2018, except the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits*, effective July 1, 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the government-wide's financial statements were:

> Management's estimate of the useful lives of the various classes of depreciable capital assets, and actuarial estimate of Other Postemployment Benefits (OPEB) and pension liabilities is based on economic life of each class of assets, and actuarial historical study and assumptions. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the district's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison, Total OPEB Liability, Net Pension Liability proportionate share and contributions, respectively, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information such as the Expenditures of Federal Awards, combining and individual nonmajor fund financial statements and other supplementary information as listed on the table of contents of the District's Annual Financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the District governing board and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Vavrinek, Trine, Day & Co. LLP

Palo Alto California
December 14, 2018

EVERGREEN SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

This page left blank intentionally.

EVERGREEN SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2018

This page left blank intentionally.

FINANCIAL SECTION

This page left blank intentionally.

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, 2018, 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 *2017-2018 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.

260 Sheridan Ave., Suite 440, Palo Alto, CA 94306 P 650.462.0400 F 650.462.0500 W vtdcpa.com

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, 2018, 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 2018 the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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 such as the combining and individual nonmajor 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 (Uniform Guidance)* and the other supplementary information as listed in 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 including the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2018

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 2017-2018 was 11,025, a decrease of 426 ADA from 2016-2017.

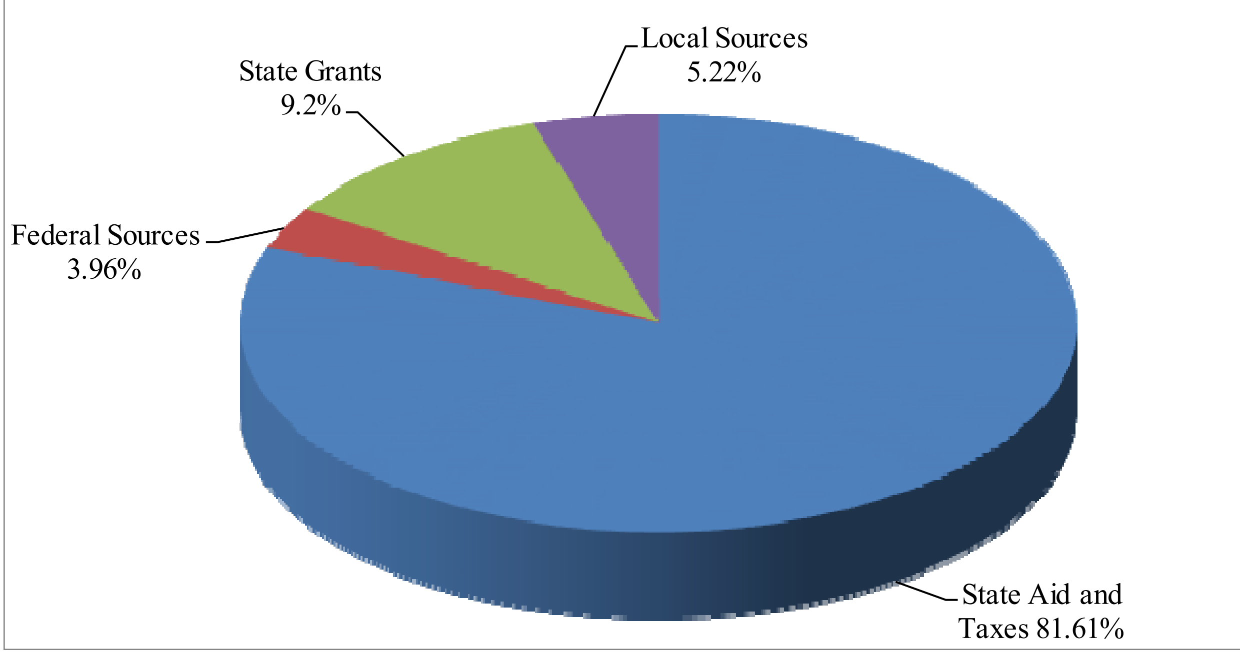
All of our eighteen schools have been identified by the California State Department of Education as California Distinguished Schools and several have achieved this recognition multiple times. Twelve have also been identified by the United States Department of Education as National Blue Ribbon Schools.

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 $8,588 which is an increase of $319 per ADA or an increase of 4% from the 2016-17 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



2018 RESULTS OF OPERATIONS

Major Governmental Fund Statements

General Fund
The District's General Fund revenues, excluding Special Reserves Fund for Retiree Benefits, was higher than expenditures by $1,908,086. The unrestricted General Fund ending fund balance was $18,154,372. Of this amount, $3,457,054 is unassigned but reserved for economic uncertainties. By way of comparison, the ending fund balance at June 30, 2017 was $21,736,909, thus the District has decreased its available reserves by $3,582,537. These reserves are inclusive of the Special Reserve Fund for Postemployment Benefits.

Building Fund
The District's Building Fund balance has increased by $17,502,292 to $39,863,861. The increase resulted from the general obligation bonds issued during the current year.

Bond Interest and Redemption Fund
The District's Bond Interest and Redemption Fund balance has decreased by $227,265 to $14,393,006. The decrease was the result of payments of interest and principal.

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 increased by $118,399 to $261,212.

Deferred Maintenance Fund
The District's Deferred Maintenance Fund balance has increased by $50 to $3,527. The increase represents the interest revenue received.

Capital Facilities Fund
The District's Capital Facilities Fund balance has increased by $320,699 to $974,417. The increase was due to the increased construction expenditures during the current year.

Mello Roos Debt Service Fund
The District's Mello Roos Debt Service Fund balance has decreased by $560,936 to $746,096. The decrease resulted mainly from the payment on 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 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, deferred outflows of resources and liabilities and deferred inflows of resources – 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 $42.21 million at June 30, 2018, an decrease of $4.18 million from 2016-2017. However, without the effect of these long-term items, our unrestricted net position would include a $4.76 million board committed amount to fund the postemployment benefits and other onetime expenditures, $3.46 million earmarked for economic uncertainty along with $14.60 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.

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.

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

	Governmental Activities	
	2018	2017*
Current and other assets	$ 91.18	$ 76.41
Capital assets	191.19	183.18
Total Assets	282.37	259.59
Deferred amount on refunding	1.01	1.03
OPEB	1.18	1.16
Pension activities	34.04	20.69
Total Deferred Outflows of Resources	36.23	22.88
Current liabilities	17.73	23.98
Long-term liabilities	328.01	286.38
Total Liabilities	345.74	310.36
OPEB	2.34	2.58
Pension activities	12.73	7.56
Total Deferred Inflows of Resources	15.07	10.14
Net Position		
Net investment in capital assets	53.29	56.73
Restricted	20.25	18.46
Unrestricted		
Board committed	4.76	4.73
Reserved for uncertainty	3.46	3.47
Unassigned	(123.97)	(121.42)
Total Net Position	$ (42.21)	$ (38.03)

** Include restated balances due to implentation of GASB 75.*
Note: Totals may not add due to rounding.

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities for the current year was $140.11 million. However, the amount that our taxpayers ultimately financed for those activities through local taxes and other general revenues was only $120.8 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 $1.71 million; operating grants and contributions from federal and state agencies, and other local organizations of $17.55 million; Federal and State Aid, including Local Control Funding Formula funding of $42.20 million.

For the prior year, the cost of all of our governmental activities was $139.10 million. However, the amount that our taxpayers ultimately financed for those activities through local taxes and other general revenues was only $122.2 million.

For the prior year, 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 $15.30 million; Federal and State Aid, including LCFF funding of $41.96 million.

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

	2018	2017	Changes
Program Revenues:			
Charges for services	$ 1.71	$ 1.55	$ 0.16
Operating granting and contributios	17.55	15.30	2.25
General Revenues:			
Federal and state sources	42.20	41.96	0.24
Property taxes	71.08	75.16	(4.08)
Other general revenues	3.39	4.45	(1.06)
Total Revenues	$ 135.93	$ 138.42	$ (2.49)
Functional Expenses:			
Instruction and instruction-related activities	$ 98.20	$ 98.82	$ (0.62)
Home-to-school transportation	1.44	1.20	0.24
Food services	3.58	3.85	(0.27)
All other pupil services	3.28	3.14	0.14
Administration	4.51	6.70	(2.19)
Plant services	8.56	8.64	(0.08)
Interest on long-term obligations	8.30	6.67	1.63
Other outgo	2.65	1.99	0.66
Depreciation	9.60	8.06	1.54
Total Expenses	$ 140.11	$ 139.10	$ 1.04
Changes in Net Position	$ (4.18)	$ (0.68)	$ (3.53)

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.

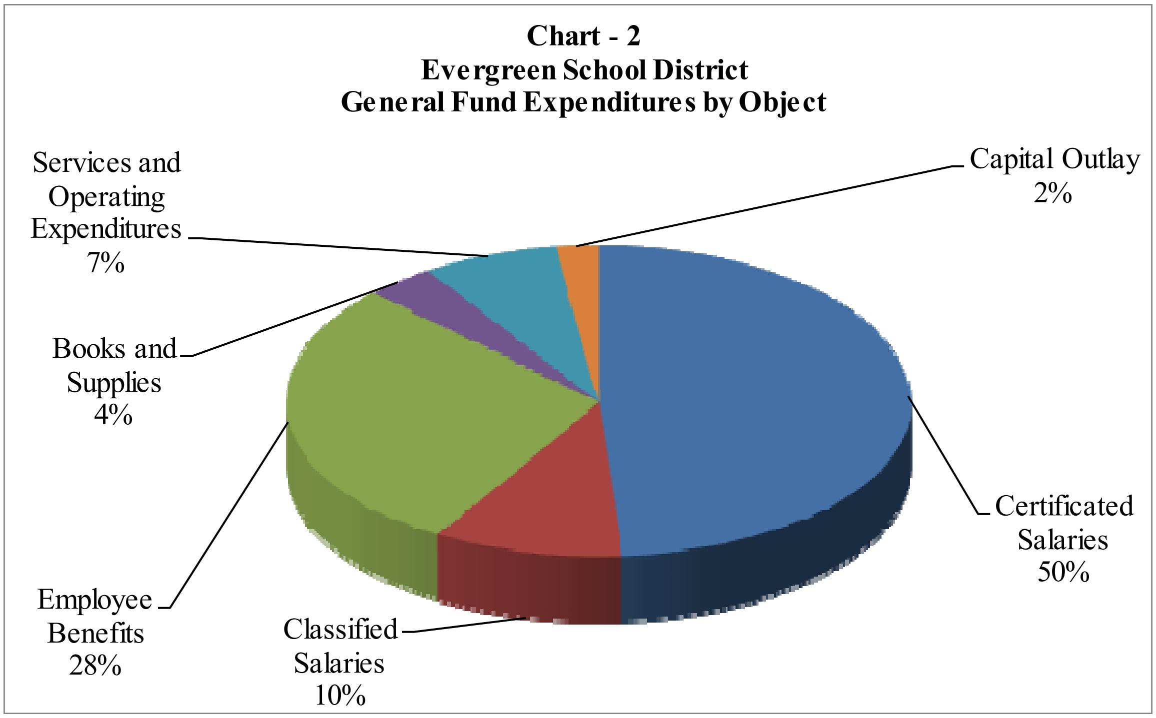
Table 3
Evergreen School District
Net Cost of Governmental Activities
(in millions of dollars)

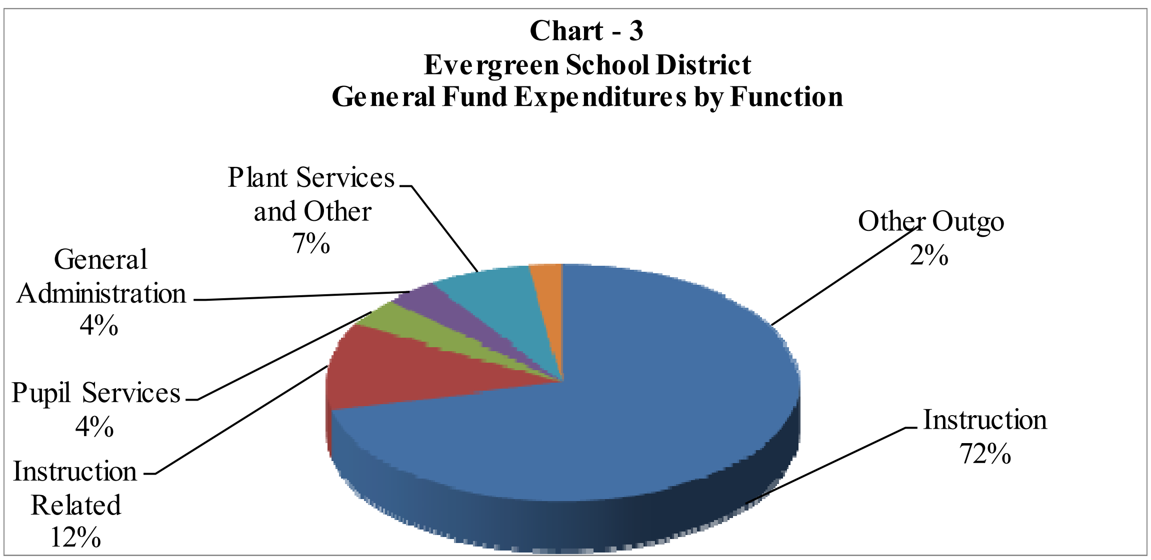
	2018	2017	Changes
Instruction and instruction-related activities	$ 83.71	$ 86.81	$ (3.10)
Home-to-school transportation	1.44	1.20	0.24
Food services	0.01	0.36	(0.35)
All other pupil services	2.39	2.30	0.09
Administration	4.30	6.41	(2.11)
Plant services	8.46	8.55	(0.09)
Ancillary services	0.06	-	0.06
Interest on long-term obligations	8.30	6.67	1.63
Other outgo	2.58	1.86	0.72
Depreciation	9.60	8.06	1.54
Total Net Cost of Governmental Activities	$ 120.85	$ 122.22	$ (1.37)

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 87%. 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.





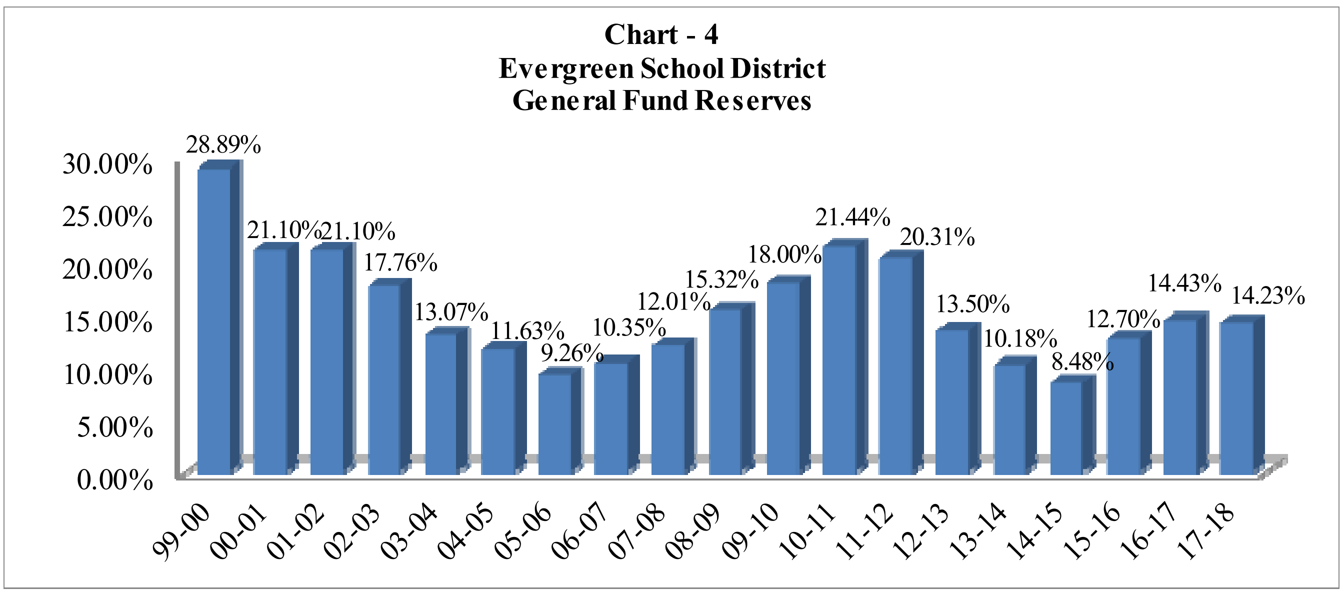
Available Reserves

The General Fund unappropriated fund balance of $14.69 million and the 3% reserve of $3.46 million equals the total available reserve balance of $18.15 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 2017-2018. 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 2015-2016 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 14.43% in the prior 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.



The following table summarizes the General Fund final budget to actual information for the year ended June 30, 2018.

Table 4
Evergreen School District
Budgetary Comparison Summary

	Final Budget	Actual	Variance Favorable (Unfavorable)*
Total Revenues	$ 114,181,953	$ 117,143,203	$ 2,961,250
Total Expenditures	$ 116,537,318	$ 115,235,117	$ 1,302,201

*June 14, 2018 Regular Board meeting agenda item 5.2 page 6 of 124 of 17/18 June Board Estimated Actuals 18/19 Final Budget with LCFF calculator backup item September 13, 2018 Regular Board meeting power point presentation.

The favorable variances of $1,302,201 in total expenditures and $2,961,250 in total revenues were primarily due to the net of Prop. 39 Clean Energy Jobs Act funding, lottery, prior year state aid, mandated costs received, and net final expenditures. Therefore the higher revenue and lower expenditures were realized.

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 2017-2018 the District had invested $320.15 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 $17.61 million from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements).

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

	2018	2017	Changes
Land	$ 26.87	$ 26.87	$ -
Construction in progress	1.09	31.97	(30.88)
Buildings and improvements	287.14	238.73	48.41
Equipment and vehicles	5.05	4.97	0.08
Total	$ 320.15	$ 302.54	$ 17.61

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.

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 2015-16, the District issued $50 million of the $100 million authorized amount. In 2017-18, the District issued $35 million of the remaining $50 million remaining authorized amount.

Long-Term Debt

At year-end the District had $178.78 million in general obligation bonds, an increase of $29.54 million from prior year and $0.27 million in other long-term debt outstanding – a decrease of $0.63 million from last year - as shown in Table 6. (More detailed information about the District's long-term liabilities is presented in Note 10 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 12 and 14).

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

	2018	2017	Changes
General obligation bonds	$ 178.78	$ 149.24	$ 29.54
Mello-Roos special tax bonds	-	0.58	(0.58)
Arbitrage liabilities	-	0.02	(0.02)
Compensated absence	0.27	0.30	(0.03)
Total	$ 179.05	$ 150.14	$ 28.91

Net Pension Liability (NPL) and OPEB

Per Government Accounting Standards Board (GASB) Statement Number 68 – *Accounting and Reporting for Pensions,* and GASB Statement Number 75 – *Accounting and Reporting for Postemployment Benefits other than Pensions,* the District recognized its proportionate share of its unfunded pension liabilities with CalPERS and CalSTRS and recognized OPEB liabilities on the financial statements. The District as a result recognized over $158.6 million in pension and OPEB 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/OPEB on behalf of its employees.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2017-2018 fiscal year was impacted by continued declining enrollment resulting in a reduction to revenue based upon Average Daily Attendance (ADA) ; on-going increases in step and column movement on salary schedules; higher medical and liability insurance premiums; special education encroachment; and other expenditure increases. This year the District results of operations realized a General Fund surplus and an increase in unrestricted fund balance. (The fund balance increase in 2016-17 was due to one-time $2.56 M mandate cost discretionary funding allocation in 2016-17). The District anticipated continuing deficit spending in the Unrestricted General Fund in 2017-18, 2018-19 and 2019-20. In order to control deficit spending, the District Board approved a multi-year, $16 million plan to budget increased revenue and decreased expenditures.

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

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 Delores Perley – Chief Business Officer, Evergreen School District, 3188 Quimby Road, San Jose, CA 95148.

EVERGREEN SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 89,237,808
Receivables	1,892,680
Stores inventories	52,775
Capital assets not depreciated	27,963,280
Capital assets, net of accumulated depreciation	163,223,408
Total Assets	282,369,951
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,014,874
Deferred outlfows from OPEB	1,177,940
Deferred outflows from pension activties	34,038,541
Total Deferred Outflows of Resources	36,231,355
LIABILITIES	
Accounts payable	4,473,542
Interest payable	2,080,331
Unearned revenue	1,569,295
Long-term obligations	
Current portion of long-term obligation other than OPEB and pensions	9,608,164
Noncurrent portion of long-term obligation other than OPEB and pensions	169,439,655
Total other post-employment benefits liability	37,569,721
Aggregate net pension liability	121,003,498
Total Long-Term Obligations	337,621,038
Total Liabilities	345,744,206
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from OPEB	2,335,534
Deferred inflows from pension activties	12,728,828
Total Deferred Inflows of Resources	15,064,362
NET POSITION	
Net investment in capital assets	53,289,279
Restricted for:	
Educational programs	5,236,012
Debt service	13,058,771
Food services	261,212
Capital projects	974,417
Self insurance	719,742
Unrestricted	(115,746,695)
Total Net Position	$ (42,207,262)

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

EVERGREEN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Instruction	$ 91,011,385	$ -	$ 13,278,477	$ (77,732,908)
Instruction-related activities:				
Supervision of instruction	5,440,843	-	876,273	(4,564,570)
Instructional library, media, and technology	1,100,747	-	4,593	(1,096,154)
School site administration	8,526,993	-	326,756	(8,200,237)
Pupil services:				
Home-to-school transportation	1,551,133	-	-	(1,551,133)
Food services	3,870,468	1,606,168	1,971,399	(292,901)
All other pupil services	3,537,290	-	885,920	(2,651,370)
Administration:				
Data processing	598,967	-	-	(598,967)
All other administration	4,230,548	63,865	145,785	(4,020,898)
Plant services	9,241,965	39,830	51,941	(9,150,194)
Ancillary services	113,252	-	5,160	(108,092)
Interest on long-term obligations	8,299,206	-	-	(8,299,206)
Intergovernmetnal instructional services	2,581,931	-	-	(2,581,931)
Total Governmental Activities	$ 140,104,728	$ 1,709,863	$ 17,546,304	(120,848,561)

General revenues and subventions:	
Property taxes, levied for general purposes	56,527,498
Property taxes, levied for debt service	12,102,958
Taxes levied for other specific purposes	2,450,646
Federal and state aid not restricted to specific	42,203,848
Interest and investment earnings	714,861
Miscellaneous	2,671,353
Subtotal, General Revenues	116,671,164
Change in Net Position	(4,177,397)
Net Position - Beginning, as restated	(38,029,865)
Net Position - Ending	$ (42,207,262)

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

This page left blank intentionally.

EVERGREEN SCHOOL DISTRICT

GOVERNMENTAL FUNDS – BALANCE SHEET
JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 29,668,052	$ 42,238,095	$ 14,358,276
Receivables	1,576,967	118,929	34,730
Due from other funds	309,924	-	-
Stores inventories	17,716	-	-
Total Assets	$ 31,572,659	$ 42,357,024	$ 14,393,006
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,824,799	$ 2,477,677	$ -
Due to other funds	-	15,486	-
Unearned revenue	1,569,295	-	-
Total Liabilities	3,394,094	2,493,163	-
Fund Balances:			
Nonspendable	32,716	-	-
Restricted	5,236,012	39,863,861	14,393,006
Committed	4,755,465	-	-
Assigned	-	-	-
Unassigned	18,154,372	-	-
Total Fund Balances	28,178,565	39,863,861	14,393,006
Total Liabilities and Fund Balances	$ 31,572,659	$ 42,357,024	$ 14,393,006

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

Non Major Governmental Funds	Total Governmental Funds
$ 2,256,667	$ 88,521,090
159,030	1,889,656
-	309,924
35,059	52,775
$ 2,450,756	$ 90,773,445
$ 171,066	$ 4,473,542
294,438	309,924
-	1,569,295
465,504	6,352,761
35,359	68,075
1,946,366	61,439,245
-	4,755,465
3,527	3,527
-	18,154,372
1,985,252	84,420,684
$ 2,450,756	$ 90,773,445

EVERGREEN SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds		**$ 84,420,684**
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	$ 320,149,054	
Accumulated depreciation is	(128,962,366)	
Net Capital Assets		191,186,688
Deferred outflows resulting from OPEB are not recognized on the governmental funds but are deferred on the statement of net position.		1,177,940
Deferred outflows resulting from pension activities are not recognized on the governmental funds but are deferred on the statement of net position.		34,038,541
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.		(2,080,331)
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.		719,742
Deferred inflows from pension activities are not recognized on the governmental funds but are deferred on the statement of net position.		(12,728,828)
Deferred inflows from OPEB are not recognized on the governmental funds but are deferred on the statement of net position.		(2,335,534)
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.		1,014,874
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	178,776,144	
Compensated absences (vacations)	271,675	
Net OPEB liability	37,569,721	
Net pension liability	121,003,498	
Total Long-Term Obligations		(337,621,038)
Total Net Position - Governmental Activities		**$ (42,207,262)**

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

This page left blank intentionally.

EVERGREEN SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local control funding formula	$ 94,678,429	$ -	$ -
Federal sources	3,827,914	-	-
Other state sources	12,983,838	-	73,550
Other local sources	5,678,045	274,825	12,113,432
Total Revenues	117,168,226	274,825	12,186,982
EXPENDITURES			
Current			
Instruction	82,246,901	-	-
Instruction-related activities:			
Supervision of instruction	4,872,760	-	-
Instructional library, media and technology	985,817	-	-
School site administration	7,636,682	-	-
Pupil services:			
Home-to-school transportation	1,389,178	-	-
Food services	-	-	-
All other pupil services	3,167,958	-	-
Administration:			
Data processing	536,429	-	-
All other administration	3,676,458	-	-
Plant services	8,039,576	202,518	-
Ancillary services	101,427	-	-
Other outgo	2,581,931	-	-
Capital outlay	-	17,570,015	-
Debt service:			
Principal	-	-	11,085,000
Interest and other	-	-	4,281,660
Total Expenditures	115,235,117	17,772,533	15,366,660
Excess (Deficiency) of Revenues Over Expenditures	1,933,109	(17,497,708)	(3,179,678)
Other Financing Sources			
Other sources	-	35,000,000	2,952,413
Net Financing Sources (Uses)	-	35,000,000	2,952,413
NET CHANGE IN FUND BALANCES	1,933,109	17,502,292	(227,265)
Fund Balance - Beginning	26,245,456	22,361,569	14,620,271
Fund Balance - Ending	$ 28,178,565	$ 39,863,861	$ 14,393,006

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

Non Major Governmental Funds	Total Governmental Funds
$ -	$ 94,678,429
1,743,501	5,571,415
126,389	13,183,777
2,250,573	20,316,875
4,120,463	133,750,496
-	82,246,901
-	4,872,760
-	985,817
-	7,636,682
-	1,389,178
3,466,349	3,466,349
-	3,167,958
-	536,429
137,830	3,814,288
85,959	8,328,053
-	101,427
-	2,581,931
(22,887)	17,547,128
575,000	11,660,000
-	4,281,660
4,242,251	152,616,561
(121,788)	(18,866,065)
-	37,952,413
-	37,952,413
(121,788)	19,086,348
2,107,040	65,334,336
$ 1,985,252	$ 84,420,684

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, 2018

Total Net Change in Fund Balances - Governmental Funds		**$ 19,086,348**
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.		
Capital outlays	$17,604,129	
Depreciation expense and disposal	(9,599,400)	
Net Expense Adjustment		8,004,729
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.		(46,140,000)
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.		(4,338,208)
Payment of the refunded bonds is recorded as an expenditure in the governmental funds, but is a reduction of liability and does not affect the statement of activities.		11,900,000
Refunding cost of the refunded bonds is recorded as an expenditure in the governmental funds but is recorded as a deferred charge on the statement of net position and does not affect the statement of activities.		163,409
Amortization of deferred refunding charges is an expense on the statement of activities and does not impact the governmental funds.		(175,591)
Payment of principal of General Obligation 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.		11,085,000
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.		1,033,790

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, 2018

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.	575,000
Reduction of arbitrage liability reduces long-term obligations in the statement of net position and is an expenditure in the statement of activities, but it does not affect the governmental funds.	21,797
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.	(3,074,702)
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.	28,423
In the governmental funds, OPEB expense are based on employer contributions made to pension plans during the year. However, in the statement of activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.	824,139
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	(2,855,127)
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.	(326,664)
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.	10,260
Change in Net Position of Governmental Activities	**$ (4,177,397)**

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

EVERGREEN SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 716,718
Receivables	3,024
Total Current Assets	719,742
NET POSITION	
Restricted for insurance programs	719,742
Total Net Position	$ 719,742

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, 2018

	Governmental Activities - Internal Service Fund
NONOPERATING REVENUES	
Interest income	$ 10,260
Change in Net Position	10,260
Total Net Position - Beginning	709,482
Total Net Position - Ending	$ 719,742

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

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	$ 9,043
Net Cash Provided by Investing Activities	9,043
Net Increase in Cash and Cash Equivalents	9,043
Cash and Cash Equivalents - Beginning	707,675
Cash and Cash Equivalents - Ending	$ 716,718

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

EVERGREEN SCHOOL DISTRICT

FIDUCIARY FUND
STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 2018

	Agency Fund
ASSETS	
Deposits and investments	$ 175,322
LIABILITIES	
Due to student groups	$ 175,322

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 $1,730,442, $1,730,442 and $16,976 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 the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. 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 revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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 approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). 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.

However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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, 2018 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 deferred and 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 deferred charges on refunding of debt, for pension related items, and for OPEB related items.

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 related to its' OPEB and pension activities.

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, 2018, 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 June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental funds	$	88,521,090
Proprietary funds		716,718
Fiduciary funds		175,322
Total Deposits and Investments	$	89,413,130

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	$	224,376
Cash in revolving		15,300
Investments		89,173,454
Total Deposits and Investments	$	89,413,130

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. The pool is not registered with the Securities and Exchange Commission.

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
County Pooled Investment Fund	$ 89,173,454	$ 89,173,454	One to five years

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, 2018.

Investment Type	Fair Value	Rating as of Year End	
		AAA	Unrated
County Pooled Investment Fund	$ 89,173,454	$ -	$ 89,173,454

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, 2018, no District bank balances were exposed to custodial credit risk.

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, 2018:

		Fair Value Measurements Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
County Pool	$ 89,173,454	$ -	$ -	$ -	$ 89,173,454

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

NOTE 4 – RECEIVABLES

Receivables at June 30, 2018, 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	Total Governmental Funds	Proprietary Fund
Federal Government						
Categorical aid	$ 408,353	$ -	$ -	$ 151,916	$ 560,269	$ -
State Government						
Categorical aid	199,223	-	-	-	199,223	-
Lottery	500,323	-	-	-	500,323	-
Other State	4,010	-	-	-	4,010	-
Local Government						
Interest	129,980	118,929	34,730	7,114	290,753	3,024
Other Local Sources	335,078	-	-	-	335,078	-
Total	$ 1,576,967	$ 118,929	$ 34,730	$ 159,030	$ 1,889,656	$ 3,024

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 26,873,690	$ -	$ -	$ 26,873,690
Construction in progress	31,964,919	13,852,994	44,728,323	1,089,590
Total Capital Assets Not Being Depreciated	58,838,609	13,852,994	44,728,323	27,963,280
Capital Assets Being Depreciated:				
Buildings and improvements	238,732,961	48,401,240	-	287,134,201
Furniture and equipment	4,973,355	78,218	-	5,051,573
Total Capital Assets Being Depreciated	243,706,316	48,479,458	-	292,185,774
Total Capital Assets	302,544,925	62,332,452	44,728,323	320,149,054
Less Accumulated Depreciation:				
Buildings and improvements	115,523,867	9,539,487	-	125,063,354
Furniture and equipment	3,839,099	59,913	-	3,899,012
Total Accumulated Depreciation	119,362,966	9,599,400	-	128,962,366
Governmental Activities Capital Assets, Net	$ 183,181,959	$ 52,733,052	$ 44,728,323	$ 191,186,688

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

Governmental Activities	
Instruction	$ 6,766,306
Supervision of instruction	403,377
Instructional library, media, and technology	81,608
School site administration	632,180
Home-to-school transportation	114,999
Food services	286,951
All other pupil services	262,250
Ancillary services	8,396
All general administration	313,678
Data processing	44,407
Plant services	685,248
Total Depreciation Expenses Governmental Activities	$ 9,599,400

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivable/Payables for the year ended June 30, 2018 consisted of the following:

		Due From	
		General Fund	Total
Due To	Building Fund	$ 15,486	$ 15,486
	Non Major Governmental Funds	294,438	294,438
	Total	$ 309,924	$ 309,924

NOTE 7 – DEFERRED CHARGE ON REFUNDING

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of $53,289,279 includes the effect of deferring the recognition of loss from advance refunding. The $1,014,874 balance of the deferred outflows of resources at June 30, 2018, will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. During the year, $175,591 was recognized as expense, and $163,409 was addition to the deferred charge as result of refunding activities.

NOTE 8 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
Vendor payables	$ 1,723,352	$ 2,477,677	$ 56,823	$ 4,257,852
Salaries and benefits	10,937	-	-	10,937
Other payables	90,510	-	114,243	204,753
Total	$ 1,824,799	$ 2,477,677	$ 171,066	$ 4,473,542

NOTE 9 – UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund
Federal financial assistance	$ 90,659
Other local grants	1,478,636
Total	$ 1,569,295

NOTE 10 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
General Obligation Bonds					
Current interest bond	$ 101,560,000	$ 46,140,000	$ 22,985,000	$ 124,715,000	$ 8,574,374
Capital appreciation bonds	37,206,227	3,074,702	-	40,280,929	-
Premium on issuance of bond	10,475,797	4,338,208	1,033,790	13,780,215	1,033,790
Sub Total	149,242,024	53,552,910	24,018,790	178,776,144	9,608,164
Compensated Absences	300,098	-	28,423	271,675	-
Arbitrage Liability	21,797	-	21,797	-	-
Mello Roos	575,000	-	575,000	-	-
Total	$ 150,138,919	$ 53,552,910	$ 24,644,010	$ 179,047,819	$ 9,608,164

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The accrued vacation liability will be paid by the fund for which the employee worked.

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, 2017	Issued / Accreted	Redeemed / Defeased	Bonds Outstanding June 30, 2018
2007	2006 A	8/1/31	4.0-6.0%	$ 30,000,000	$ 14,200,000	$ -	$ 14,200,000	$ -
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	37,206,227	3,074,702	-	40,280,929
2012	Refunding	9/1/21	2.0-4.0%	7,700,000	5,975,000	-	1,210,000	4,765,000
2015	Refunding	9/1/24	2.0-5.0%	33,990,000	28,385,000	-	2,775,000	25,610,000
2016	2016	8/1/45	2.0-5.0%	50,000,000	45,500,000	-	4,800,000	40,700,000
2018	2018	8/1/46	3.1-5.0%	35,000,000	-	35,000,000	-	35,000,000
2018	Refunding	8/1/31	3.5-5.0%	11,140,000	-	11,140,000	-	11,140,000
			Subtotal	$ 197,828,712	$ 147,142,594	$ 49,214,702	$ 22,985,000	164,995,929
							Unamortized Premiums	13,780,215
							Total	$ 178,776,144

Debt Service Requirements to Maturity

The bonds mature through 2047 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 8,574,374	$ 5,240,015	$ 13,814,389
2020	8,997,576	5,831,514	14,829,090
2021	8,669,100	5,871,240	14,540,340
2022	6,165,480	6,293,211	12,458,691
2023	7,058,347	6,129,393	13,187,740
2024-2028	25,342,266	41,347,685	66,689,951
2029-2033	22,739,419	26,043,036	48,782,455
2034-2038	17,980,000	10,157,315	28,137,315
2039-2043	20,455,000	6,689,551	27,144,551
2044-2047	20,560,000	1,867,975	22,427,975
Total	146,541,562	$ 115,470,935	$ 262,012,497
Accretion to date	18,454,367		
	$ 164,995,929		

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 were fully paid off in the current fiscal year.

NOTE 11 – 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	$ -	$ -	$ 300	$ 15,300
Stores inventories	17,716	-	-	35,059	52,775
Total Nonspendable	32,716	-	-	35,359	68,075
Restricted					
Educational programs	5,236,012	-	-	-	5,236,012
Capital projects	-	39,863,861	-	974,417	40,838,278
Debt services	-	-	14,393,006	746,096	15,139,102
Food services	-	-	-	225,853	225,853
Total Restricted	5,236,012	39,863,861	14,393,006	1,946,366	61,439,245
Committed					
Post employement benefits	4,755,465	-	-	-	4,755,465
Total Committed	4,755,465	-	-	-	4,755,465
Assigned					
Other	-	-	-	3,527	3,527
Total Assigned	-	-	-	3,527	3,527
Unassigned					
Reserve for economic uncertainties	3,457,054	-	-	-	3,457,054
Remaining unassigned	14,697,318	-	-	-	14,697,318
Total Unassigned	18,154,372	-	-	-	18,154,372
Total	$ 28,178,565	$ 39,863,861	$ 14,393,006	$ 1,985,252	$ 84,420,684

NOTE 12 – TOTAL OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITY

For the fiscal year ended June 30, 2018, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense as follows:

OPEB Plan	Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 37,569,721	$ 1,177,940	$ 2,335,534	$ 2,935,181

The details of the District plan are as follows:

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

Plan Membership

At June 30, 2017, the most recent valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	36
Inactive employees entitled to but not yet receiving benefits payments	123
Active employees	509
	668

Benefits Provided

The Plan provides medical insurance benefits to eligible retirees and their spouses. 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 of an active participant 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. The monthly benefit is paid until the individual reaches age 65. Management and Certificated employees receive a contribution from the District amounting to $1,517 monthly for employees retiring before June 30, 2014. Employees retiring after June 30, 2014 are entitled to a $1,471 monthly contribution. Classified employees receive a flat $300 contribution regardless of their health plan election.

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, different bargaining units, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017-2018, the District contributed $1,177,940 to the Plan, all of which was used for current premiums.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.00%, average, including inflation
Discount rate	3.58%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	5.00% in 2018 and all later years

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2014 CalPERS experience study.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study available from CalPERS.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 38,129,051
Service cost	2,110,864
Interest	1,070,163
Changes in assumptions	(2,581,380)
Benefit payments	(1,158,977)
Net change in total OPEB liability	(559,330)
Balance at June 30, 2018	$ 37,569,721

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 41,154,737
Current discount rate (3.58%)	37,569,721
1% increase (4.58%)	34,330,807

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rates.

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.0 percent) or 1-percentage-point higher (6.0 percent) than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (4.0%)	$ 33,275,165
Current healthcare cost trend rate (5.0%)	37,569,721
1% increase (6.0%)	42,597,647

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $2,935,181. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of $1,177,940, and deferred inflows of resources for changes in assumptions of $2,335,534.

The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the subsequent fiscal year. The deferred inflows of resources related to changes in assumptions will be amortized over a closed 13.4 years and will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 245,846
2020	245,846
2021	245,846
2022	245,846
2023	245,846
Thereafter	1,106,304
	$ 2,335,534

NOTE 13 – 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, 2018, 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 2018, 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 14 – EMPLOYEE RETIREMENT SYSTEMS

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

The District reported its proportionate share of the net pension liabilities, pension expense, deferred inflows of resources 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	$ 99,016,964	$ 26,875,046	$ 12,244,881	$ 8,559,173
CalPERS	21,986,534	7,163,495	483,947	4,535,709
Total	$ 121,003,498	$ 34,038,541	$ 12,728,828	$ 13,094,882

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, 2016, 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, 2018, 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	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and the District's total contributions were $7,915,167.

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

At June 30, 2018, 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	$	99,016,964
State's proportionate share of the net pension liability associated with the District		58,577,599
Total	$	157,594,563

The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively was 0.1071 percent and 0.1132 percent, resulting in a net decrease in the proportionate share of 0.0062 percent.

For the year ended June 30, 2018, the District recognized pension expense of $8,559,173. In addition, the District recognized pension expense and revenue of $5,896,398 for support provided by the State. At June 30, 2018, 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	$	7,915,167	$	-
Differences between projected and actual earnings on plan investments		-		2,637,097
Differences between expected and actual experience in the measurement of the total pension liability		366,174		1,726,926
Change in assumptions		18,344,049		
Change in proportions		249,656		7,880,858
Total	$	26,875,046	$	12,244,881

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2019	$ (2,192,654)
2020	1,659,135
2021	239,272
2022	(2,342,850)
Total	$ (2,637,097)

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

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2019	$ 4,621,781
2020	4,621,781
2021	3,989,228
2022	(1,703,751)
2023	(1,565,416)
Thereafter	(611,528)
Total	$ 9,352,095

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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 (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 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 (7.10 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 (6.10%)	$ 145,388,338
Current discount rate (7.10%)	$ 99,016,964
1% increase (8.10%)	$ 61,383,451

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, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. 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, 2018, 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	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

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, 2018, are presented above and the total District contributions were $2,324,586.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $21,986,534. The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively was 0.0921 percent and 0.0931 percent, resulting in a net decrease in the proportionate share of 0.0010 percent.

For the year ended June 30, 2018, the District recognized pension expense of $4,535,709. At June 30, 2018, 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	$ 2,324,586	$ -
Differences between projected and actual earnings on plan investments	760,583	-
Change in assumption	3,211,479	258,864
Differences between expected and actual experience	787,687	-
Change in proportions	79,160	225,083
Total	$ 7,163,495	$ 483,947

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 are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2019	$ (20,610)
2020	877,548
2021	320,139
2022	(416,494)
Total	$ 760,583

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

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2019	$ 1,293,445
2020	1,228,309
2021	1,072,625
Total	$ 3,594,379

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 (6.15%)	$ 32,349,237
Current discount rate (7.15%)	$ 21,986,534
1% increase (8.15%)	$ 13,389,804

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

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, 2018.

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Project		Remaining Construction Commitment	Expected Date of Completion
Evergreen School and Holly Oak School: Kinder Expansions	$	173,805	October 2018
Cedar Grove School Phase II: Classroom Replacement and Modernization		1,434	June 2018
Quimby Oak Middle School: LSI Sitework		499,444	October 2018
Quimby Oak Middle School: Lobo School Innovation		245,488	June 2018
Total	$	920,171	

NOTE 16 – 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 the Chief Business Officer to the Governing Board of SBASIA, CSACEIA and Director of Operations Support Services, Rick Navarro to the EVT.

During the year ended June 30, 2018, the District made payments of $560,259, $985,458, and $762,439 to SBASIA, CSACEIA, and EVT, respectively for services rendered.

NOTE 17 - RESTATEMENT FO PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Net Position - Beginning	$	(21,219,963)
Restatement related to OPEB activities		(16,809,902)
Net Position - Beginning as Restated	$	(38,029,865)

REQUIRED SUPPLEMENTARY INFORMATION

EVERGREEN SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
REVENUES				
Local control funding formula**	$94,381,107	$ 94,555,198	$ 94,678,429	$ 123,231
Federal sources	4,004,786	4,039,545	3,827,914	(211,631)
Other state sources	8,204,958	9,929,492	12,983,838	3,054,346
Other local sources	5,369,970	5,657,718	5,653,022	(4,696)
Total Revenues	111,960,821	114,181,953	117,143,203	2,961,250
EXPENDITURES				
Certificated salaries**	56,977,498	55,984,190	56,204,232	(220,042)
Classified salaries	11,231,543	11,017,489	11,325,163	(307,674)
Employee benefits	32,978,052	32,509,221	32,906,648	(397,427)
Books and supplies	4,783,387	5,149,653	4,184,137	965,516
Services and operating expenditures	8,408,200	8,768,805	8,092,618	676,187
Other outgo	1,992,931	3,065,160	2,444,101	621,059
Capital outlay	-	42,800	78,218	(35,418)
Total Expenditures**	116,371,611	116,537,318	115,235,117	1,302,201
Excess (Deficiency) of Revenues Over Expenditures**	(4,410,790)	(2,355,365)	1,908,086	4,263,451
Other Financing Sources (Uses)				
Other sources	-	-	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	(4,410,790)	(2,355,365)	1,908,086	4,263,451
Fund Balance - Beginning*	24,405,026	24,515,014	24,515,014	-
Fund Balance - Ending	$19,994,236	$ 22,159,649	26,423,100	$4,263,451
Special Reserve Fund For Postemployment Benefits			1,755,465	
Fund Balance - General Fund GAAP Basis			$ 28,178,565	

*June 2017 Adopted

**June 2017 Adopted and December 2017 1st Interim

See accompanying note to required supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

Measurement Date, as of June 30,	2018
Total OPEB Liability	
Service cost	$ 2,110,864
Interest	1,070,163
Changes of assumptions	(2,581,380)
Benefit payments	(1,158,977)
Net change in total OPEB liability	(559,330)
Total OPEB liability - beginning	38,129,051
Total OPEB liability - ending	$ 37,569,721
Covered-employee payroll	$ 58,649,118
District's total OPEB liability as a percentage of covered-employee payroll	64.06%

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

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, 2018

	2018	2017	2016	2015
CalSTRS				
District's proportion of the net pension liability	0.1071%	0.1132%	0.1205%	0.1199%
District's proportionate share of the net pension liability	$ 99,016,964	$ 91,580,535	$ 81,132,322	$ 70,072,007
State's proportionate share of the net pension liability associated with the District	58,577,599	52,135,165	42,910,055	42,312,503
Total	$ 157,594,563	$ 143,715,700	$ 124,042,377	$ 112,384,510
District's covered payroll	$ 56,710,102	$ 56,700,927	$ 50,656,968	$ 54,001,099
District's proportionate share of the net pension liability as a percentage of its covered payroll	175%	162%	160%	130%
Plan fiduciary net position as a percentage of the total pension liability	70%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability (asset)	0.0921%	0.0931%	0.0945%	0.0922%
District's proportionate share of the net pension liability (asset)	$ 21,986,534	$ 18,387,896	$ 13,925,990	$ 10,470,130
District's covered payroll	$ 11,742,569	$ 11,167,585	$ 10,472,116	$ 9,735,849
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	187%	165%	133%	108%
Plan fiduciary net position as a percentage of the total pension liability	74%	74%	79%	83%

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

See accompanying note to required supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	$ 7,915,167	$ 7,093,698	$ 6,083,935	$ 4,498,323
Contributions in relation to the contractually required contribution	7,915,167	7,093,698	6,083,935	4,498,323
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 55,090,770	$ 56,710,102	$ 56,700,927	$ 50,656,968
Contributions as a percentage of covered payroll	14.37%	12.51%	10.73%	8.88%
CalPERS				
Contractually required contribution	$ 2,324,586	$ 2,189,093	$ 1,614,577	$ 1,198,219
Contributions in relation to the contractually required contribution	2,324,586	2,189,093	1,614,577	1,198,219
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 11,743,248	$ 11,742,569	$ 11,167,585	$ 10,472,116
Contributions as a percentage of covered payroll	19.80%	18.64%	14.46%	11.44%

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

See accompanying note to required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule(s)

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

These schedules 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.

At June 30, 2018, the District major fund did not exceed the budgeted amount in total as follows:

	Expenditures and Other Uses		
Funds	Budget	Actual	Excess
General Fund	$ 116,537,318	$ 115,235,117	$ 1,302,201

Schedule of Changes in the District's Net total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – No Change in the current year.

Change in Assumptions – Discount rate change from 2.85% at June 30, 2016 to 3.58% at June 30, 2017.

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

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

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

Changes in Assumptions **–** The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of District Pension Contributions

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

SUPPLEMENTARY INFORMATION

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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	14329	$ 981,744
Improving teacher quality	84.367	14341	182,827
English language acquisition	84.365	10084	257,927
Special education - Individuals with Disabilities Education Act:			
Basic local assistance	84.027	13379	1,890,683
Preschool grants	84.173	13430	74,476
Preschool local entitlement	84.027A	13682	199,752
Mental health allocation plan	84.027A	14468	118,188
Preschool staff development	84.173A	13431	671
Total IDEA cluster:			2,283,770
Total U.S Department of Education			3,706,268
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child nutrition cluster			
Espcially needy breakfast	10.553	13526	290,420
National school lunch	10.555	13524	1,453,081
National school lunch - Commodity [1]	10.555	13396	279,219
Total Child nutrition cluster:			2,022,720
Total U.S. Department of Agriculture			2,022,720
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medical Assistance Program	93.778	10013	121,646
Total Federal Grants			$ 5,850,634

[1] Commodities for the school lunch program are not recorded in the financial statements.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

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
Sylvia Alvarez	President	2018
Bonnie Mace	President Pro Tem	2020
Leila Welch	Clerk	2020
Jim Zito	Trustee	2018
Balalji Venkatraman	Trustee	2018

ADMINISTRATION

Katherine Gomez	Superintendent
Biling (Nelly) Yang, resigned 5/15/18	Chief Business Officer (CBO)
Mary T. Stark	Interim CBO

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	4,372.91	4,381.45
Fourth through sixth	3,857.19	3,855.11
Seventh and eighth	2,782.53	2,781.45
Total Regular ADA	11,012.63	11,018.01
Extended Year Special Education		
Transitional kindergarten through third	3.99	3.99
Fourth through sixth	2.27	2.27
Seventh and eighth	1.00	1.00
Total Extended Year Special Education	7.26	7.26
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.41	0.36
Fourth through sixth	3.19	2.94
Seventh and eighth	1.16	1.05
Total Special Education, Nonpublic, Nonsectarian Schools	4.76	4.35
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.51	0.51
Seventh and eighth	0.19	0.19
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.70	0.70
Total ADA	11,025.35	11,030.32

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-2018 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		57,930	180	Not applicable	Complied
Grade 8		57,930	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, 2018

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, 2018, Unaudited Actuals	$ 26,423,100	$ 1,755,465
To conform with GASB 54, the District consolidated Fund 20, Retiree Benefit Special Reserve Fund into the General Fund.	1,755,465	(1,755,465)
Balance, June 30, 2018, Audited Financial Statements	$ 28,178,565	$ -

See accompanying note to supplementary information.

EVERGREEN SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND[3]				
Revenues	$ 120,578,985	$ 117,143,203	$ 118,005,075	$ 122,235,918
Expenditures	116,487,036	115,235,117	115,528,108	114,149,447
INCREASE (DECREASE) IN FUND BALANCE	$ 4,091,949	$ 1,908,086	$ 2,476,967	$ 8,086,471
ENDING FUND BALANCE	$ 30,515,049	$ 26,423,100	$ 24,515,015	$ 22,038,048
AVAILABLE RESERVES[2]	$ 20,490,856	$ 16,398,907	$ 16,665,249	$ 14,492,211
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3]	17.59%	14.23%	14.43%	12.70%
LONG-TERM OBLIGATIONS	$ 328,012,874	$ 337,621,038	$ 172,880,471	$ 180,697,542
K-8 AVERAGE DAILY ATTENDANCE AT P-2	10,592	11,025	11,451	11,962

The General Fund balance has increased by $4,385,052 over the past two years. The fiscal year 2018-19 budget projects a fund balance increase of $4,091,949. 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 surpluses in two of the past three years and anticipates incurring an operating surplus during the 2018-19 fiscal year. Total long-term obligations have increased by $156,923,496 over the past two years. The increase mainly is because the District recorded OPEB liability and issuance of additional bonds to fund school construction projects.

Average daily attendance has decreased by 937 over the past two years. A decrease of 433 ADA is anticipated during fiscal year 2018-19.

[1] Budget 2019 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.

EVERGREEN SCHOOL DISTRICT

NON MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	$ 530,807	$ 3,512	$ 979,387
Receivables	151,916	15	3,964
Stores inventories	35,059	-	-
Total Assets	$ 717,782	$ 3,527	$ 983,351
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 171,066	$ -	$ -
Due to other funds	285,504	-	8,934
Total Liabilities	456,570	-	8,934
Fund Balances:			
Nonspendable	35,359	-	-
Restricted	225,853	-	974,417
Assigned	-	3,527	-
Total Fund Balances	261,212	3,527	974,417
Total Liabilities and Fund Balances	$ 717,782	$ 3,527	$ 983,351

See accompanying note to supplementary information.

Mello Roos Debt Service Fund	Total Non Major Governmental Funds
$ 742,961	$ 2,256,667
3,135	159,030
-	35,059
$ 746,096	$ 2,450,756
$ -	$ 171,066
-	294,438
-	465,504
-	35,359
746,096	1,946,366
-	3,527
746,096	1,985,252
$ 746,096	$ 2,450,756

EVERGREEN SCHOOL DISTRICT

NON MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES			
Federal sources	$ 1,743,501	$ -	$ -
Other state sources	126,389	-	-
Other local sources	1,938,647	50	297,812
Total Revenues	3,808,537	50	297,812
EXPENDITURES			
Current			
Pupil services:			
Food services	3,466,349	-	-
All other administration	137,830	-	-
Plant services	85,959	-	-
Capital outlay	-	-	(22,887)
Debt service:			
Principal	-	-	-
Total Expenditures	3,690,138	-	(22,887)
NET CHANGE IN FUND BALANCES	118,399	50	320,699
Fund Balance - Beginning	142,813	3,477	653,718
Fund Balance - Ending	$ 261,212	$ 3,527	$ 974,417

See accompanying note to supplementary information.

Mello Roos Debt Service Fund	Total Non Major Governmental Funds
$ -	$ 1,743,501
-	126,389
14,064	2,250,573
14,064	4,120,463
-	3,466,349
-	137,830
-	85,959
-	(22,887)
575,000	575,000
575,000	4,242,251
(560,936)	(121,788)
1,307,032	2,107,040
$ 746,096	$ 1,985,252

NOTE 1 - PURPOSE OF SCHEDULES (CONTINUED)

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:		$ 5,571,415
Commodities are not recorded on the financial statements.	10.555	279,219
Total Schedule of Expenditures of Federal Awards		$ 5,850,634

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, 2018

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

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2018. Our report included an emphasis of matter regarding the adoption of the new accounting standard, GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other than Pensions.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as item 2018-001 that we consider to be significant deficiencies.

260 Sheridan Ave., Suite 440, Palo Alto, CA 94306 P 650.462.0400 F 650.462.0500 W vtdcpa.com

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
December 14, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR 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, 2018. 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 Ave., Suite 440, Palo Alto, CA 94306 P 650.462.0400 F 650.462.0500 W vtdcpa.com

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, 2018.

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 a 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 District's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questions costs as findings 2018-001. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
December 14, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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 (the District) compliance with the types of compliance requirements as identified in the *2017-2018 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, 2018.

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 *2017-2018 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 opinions. Our audit does not provide a legal determination of District's compliance with those requirements.

Basis for Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding unduplicated local control funding formula pupil counts, as noted at finding 2018-002 in the schedule of findings and questioned costs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Unduplicated Local Control Funding Formula Pupil Counts for the year ended June 30, 2018.

260 Sheridan Ave., Suite 440, Palo Alto, CA 94306 P 650.462.0400 F 650.462.0500 W vtdcpa.com

Unmodified Opinion on Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the other District programs noted below that were audited for the year ended June 30, 2018.

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 for the following items:

	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
Apprenticeship: Related and Supplemental Instruction	No, See Below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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 Programs; 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 Continuing Education Program; therefore, we did not perform procedures related to 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 an Apprenticeship Program; therefore, we did not perform procedures related to the Apprenticeship Program.

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 Programs; 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
December 14, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EVERGREEN SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
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
10.553, 10.555	Child Nutrition 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 for all programs except for the following program which was qualified:

Name of Program
Unduplicated Local Control Funding Formula Pupil Counts

2018-001 Budgeting Process

Code

Internal Controls (30000)

Criteria or Specific Requirements

Condition

The District's trend of deficit spending was reversed during the current fiscal year. However, this was achieved through use of one-time revenues in addition to modest expenditure reductions.

The District is in the process of addressing needed on-going reductions and has made significant expenditure reductions in past years. However, the District's current financial projection indicates continuing deficits as well as declining enrollments. The projections indicate use of available reserves to fund on-going deficits. The District's current available reserves should be conserved for contingencies and one-time expenditures rather than financing of ongoing operational deficits to avoid reducing available reserves below State minimum reserve requirements.

Cause

Over the past several years the District's enrollment declined by over 10%. Additional decreases are projected over the course of the next few years. Every student enrolled generates LCFF funding from along with various other funding from State and Federal agencies that is dependent on the District enrollment. Because of the decline in enrollment, revenues are projected to continue to decline over the next few years.

Effect

The District's reserves may solve budget shortfalls on a temporary basis but the District will need to evaluate its future financial position by reducing its expenditures. Some of these reductions could mean consolidation of the school sites, renegotiating benefits and salaries or reducing workforce in line with the enrollment decline projections. In reviewing the District's multi-year projections, it was noted that the District's reserves were being utilized to balance the budget for the upcoming years and the District's fund balance is approaching the borderlines of not meeting the 3% reserve requirements

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

2018-002 Unduplicated Local Control Funding Formula Pupil Counts

Code
State Compliance (40000)

Criteria or Specific Requirements
Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the District over census day (first Wednesday in October). The percentage equals:

> Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. Divided by total enrollment in the LEA [EC sections 2574(b)(1) and 42238.02(b)(5)].

"Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria [EC sections 2574(b) (2) and 42238.02(b)(1)].

Data submitted by LEAs to CALPADS is used as the starting point for calculating the unduplicated student count. CALPADS Certification Report 1.17 – FRPM/English Learner/Foster Youth – Count, displays the counts of students by category and an unduplicated total.

In order to be counted in Report 1.17, a student must have an open primary or short-term enrollment in CALPADS over census day and meet one or more of the following criteria:

- Have a program record with an education program code of Homeless (191), Migrant (135), Free Meal Program (181), or Reduced-Price Meal Program (182), that is open over census day.
- Have an English Language Acquisition Status (ELAS) of "English learner" (EL) that is effective over census day.
- Be directly certified in July through November as being eligible for free meals based on a statewide match conducted by CALPADS.
- Be identified as a foster youth based on a statewide match conducted by CALPADS.
- Be identified as a foster youth through a local data matching process and submitted to and validated by CALPADS.

Condition
From the CALPADS certification reports, we selected samples of students that are only English Learner (EL) eligible as identified under the "ELAS Designation" column and verify there is supporting documentation that indicates the student was eligible for the designation in order to verify there is supporting documentation such as a copy of the parent/guardian notification letter that states the pupil is initially designated as an EL or is a continuing EL, and a copy of the California English Language Development Test (CELDT) Student Performance Level Report that indicates the student's overall performance and domain scores do not meet the CELDT criterion for English proficiency, or if the results on the Student Performance Level Report indicate that the student has met the CELDT criterion for English proficiency, the LEA's Policy/Procedures for Reclassification and documentation that was used to determine the student's EL status consistent with the LEA policy.

We identified instances where students were improperly classified as EL eligible.

Questioned Costs
In order to determine the total impact of the error, management of the District assessed the complete population of CALPADS reported data for the 2017-18 fiscal year. It was determined that CALPADS overstated the unduplicated count by 56 pupils erroneously designated as EL only eligible, when in fact the pupils did not qualify for such designation. This overstatement resulted in a dollar impact of additional LCFF revenue in the amount of $11,335.

Context
All of the decreases are to the category of pupils designated as EL eligible.

Effect
The percentage of "unduplicated pupils" enrolled in the District over census day was overstated, resulting in the District receiving excess supplemental and concentration grants.

Cause
The overstatement is due to challenges experienced with integrating and analyzing data across several data systems, significant staff turnover on the CALPADS reporting team, and an absence of a formalized, cross-functional process for CALPADS data review and validation.

Recommendation
The District should appoint an individual to review the listing of pupils designated as EL eligible in report 1.18 and reconcile the listing with data from the English Language Learners department.

Corrective Action Plan/District Response
The District's CALPADS team alongside of Executive Cabinet will work together to monitor unduplicated counts reported. The Manager, Information Services, will contact Audit Partner Gharaibeh for a recommendation on specific verification steps. The team will assign a Student Information Specialist to review the listing of pupils designated as English Learner (ELAS) eligible with the Director of Instruction to verify the ELAS designation through current supporting documentation for each pupil. The team will work closely to establish internal controls to ensure accurate transfer of data entered into the PowerSchool student information system to the CALPADS reporting platform. The team will provide updated training for all staff whether they are collecting and maintaining current support documentation for initial or continuing ELAS designation to include CELDT score results, entering data into PowerSchool fields or transferring data into CALPADS. The Manager, Information Services, with the support of Executive Cabinet will be in charge of training and will oversee the verification process to provide an accurate unduplicated ELAS pupil count submission to the State of California.

EVERGREEN SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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