



November 27, 2017

To the Governing Board  
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, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and 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 25, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Evergreen School District are described in Note 1 to the financial statements. We noted no transactions entered into by Evergreen School 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 estimates affecting the Evergreen School District's financial statements were the valuation basis for capital assets and other postemployment benefit obligation (OPEB) and pension related liabilities.

We evaluated the key factors and assumptions used to develop the OPEB and the Pension liability and depreciation for to capital assets 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.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. During the year, we did not propose any audit adjustment.

#### *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 November 27, 2017.

### *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 Evergreen School 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

With respect to the supplementary information accompanying the financial statements, we applied certain limited procedures to management's discussion and analysis and General fund budgetary comparison schedule, pension schedules of contributions and proportionate share and other postemployment schedule of finding progress, 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 the Schedule of Expenditures of Federal Awards and other supplementary information, 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 use of the 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.

*Vavrinch, Trine, Day & Co. LLP*

Palo Alto, California  
November 27, 2017

**EVERGREEN SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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# EVERGREEN SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Evergreen School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Evergreen School District (District) as of and for the year ended June 30, 2017, 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 *2016-2017 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.

## ***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, 2017, 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.

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, 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  
November 27, 2017



## DISTRICT PROFILE

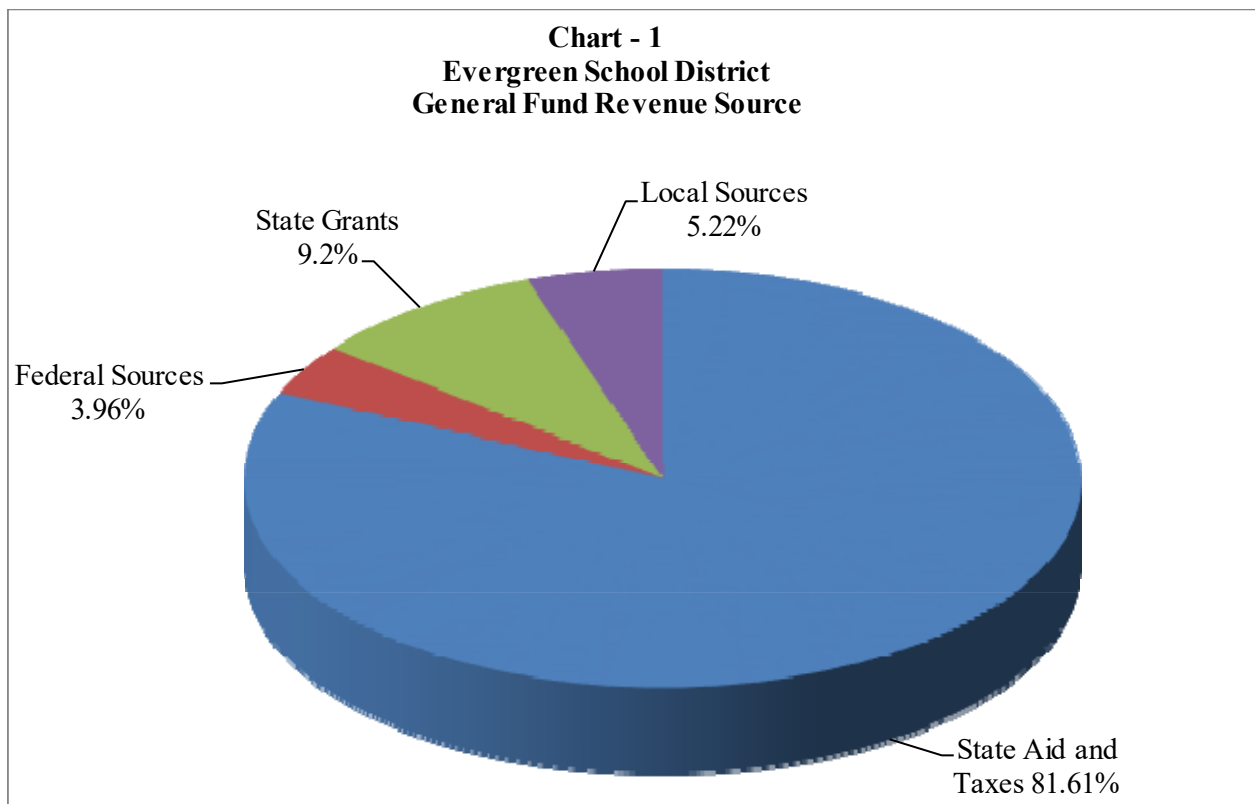
Evergreen School District (District) was formed in 1860 and is one of the oldest school districts in Santa Clara County. The District is located along the Mount Hamilton mountain range in the southeastern part of San Jose and extends to the west to Highway 101 and to the north to Tully Road. It encompasses 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 2016-2017 was 11,451, a decrease of 511 ADA from 2015-2016.

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

## FINANCIAL HIGHLIGHTS

Local control funding formula is the largest component of the District's General fund budget. The District received a basic allocation per unit of average daily attendance (ADA) of \$7,975 which is an increase of \$388 per ADA or an increase of 5.1% from the 2015-16 funding level.

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



# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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### 2017 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 \$2,476,967. The unrestricted General Fund ending fund balance was \$16,665,249. Of this amount, \$3,465,843 is unassigned but reserved for economic uncertainties. By way of comparison, available reserves at June 30, 2016 were \$14,492,211, thus the District has increased its available reserves by \$2,173,038 or approximately 15%.

The District's Retiree Benefits Special Reserve Fund balance has increased by \$16,976 to \$1,730,442. The increase represents the interest revenue received. This fund is combined with the General Fund in the basic financial statement starting 2010-11 to comply with GASB 54.

##### Building Fund

The District's Building Fund balance has decreased by \$31,955,452 to \$22,361,569. The decrease resulted from the increased construction expenditures during the current year.

##### Bond Interest and Redemption Fund

The District's Bond Interest and Redemption Fund balance has decreased by \$1,050,701 to \$14,620,271. The decrease resulted from additional taxes paid for the general obligation bonds.

#### Non Major Governmental Fund Statements

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

##### Cafeteria Fund

The District's Cafeteria Fund balance has increased by \$6,897 to \$142,813.

##### Deferred Maintenance Fund

The District's Deferred Maintenance Fund balance has increased by \$34 to \$3,477. The increase represents the interest revenue received.

##### Capital Facilities Fund

The District's Capital Facilities Fund balance has decreased by \$733,098 to \$653,718. The decrease 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 increased by \$10,765 to \$1,307,032. The increase resulted mainly from the collection of special taxes that were used to pay down the debt.

# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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### 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.

# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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### 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.

**EVERGREEN SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District’s *combined* net position was a deficit \$21.22 million at June 30, 2017, an decrease of \$0.68 million from 2015-2016. However, without the effect of these long-term items, our unrestricted net position would include a \$4.73 million board committed amount to fund the postemployment benefits, \$3.47 million earmarked for economic uncertainty along with \$13.20 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.

	Governmental Activities	
	2017	2016
Current and other assets	\$ 76.41	\$ 102.89
Capital assets	183.18	158.5
<b>Total Assets</b>	<b>259.59</b>	<b>261.39</b>
Deferred amount on refunding	1.03	1.19
Pension activities	20.69	9.39
<b>Total Deferred Outflows of Resources</b>	<b>21.72</b>	<b>10.58</b>
Current liabilities	23.98	19.29
Long-term liabilities	270.99	263.93
<b>Total Liabilities</b>	<b>294.97</b>	<b>283.22</b>
Pension activities	7.56	9.30
<b>Total Deferred Inflows of Resources</b>	<b>7.56</b>	<b>9.30</b>
Net Position		
Net investment in capital assets	56.73	54.28
Restricted	18.46	20.58
Unrestricted		
Board committed	4.73	4.71
Reserved for uncertainty	3.47	3.42
Unassigned	(104.61)	(103.53)
<b>Total Net Position</b>	<b>\$ (21.22)</b>	<b>\$ (20.54)</b>

*Note: Totals may not add due to rounding.*



**EVERGREEN SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**Governmental Activities**

As reported in the Statement of Activities, the cost of all of our governmental activities for the current year was \$139.08 million. However, the amount that our taxpayers ultimately financed for those activities through local taxes and other general revenues was only \$122.25 million because of certain grants and contributions along with charges for services that financed a portion of those expenses.

Major funding sources for governmental activities included charges for services to those who benefited from certain programs of \$1.55 million; operating grants and contributions from federal and state agencies, and other local organizations of \$15.30 million; Federal and State Aid, including Local Control Funding Formula funding of \$37.3 million.

For the prior year, the cost of all of our governmental activities was \$135.52 million. However, the amount that our taxpayers ultimately financed for those activities through local taxes and other general revenues was only \$119.02 million.

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 \$14.93 million; Federal and State Aid, including LCFF funding of \$49.9 million.

	2017	2016	Changes
<b>Program Revenues:</b>			
Charges for services	\$ 1.55	\$ 1.55	\$ 0.00
Operating granting and contributios	15.30	14.93	0.37
<b>General Revenues:</b>			
Federal and state sources	41.96	58.88	(16.92)
Property taxes	75.16	60.84	14.32
Other general revenues	4.46	4.69	(0.23)
Total Revenues	<u>\$ 138.42</u>	<u>\$ 140.89</u>	<u>\$ (2.47)</u>
<b>Functional Expenses:</b>			
Instruction and instruction-related activities	\$ 98.82	\$ 96.06	\$ 2.76
Home-to-school transportation	1.20	1.85	(0.65)
Food services	3.85	3.88	(0.03)
All other pupil services	3.14	2.68	0.46
Administration	6.70	7.80	(1.10)
Plant services	8.64	7.41	1.23
Interest on long-term obligations	6.67	6.67	0.00
Other outgo	1.99	1.12	0.87
Depreciation	8.06	8.05	0.01
Total Expenses	<u>\$ 139.08</u>	<u>\$ 135.52</u>	<u>\$ 3.56</u>
<b>Changes in Net Position</b>	<u>\$ (0.66)</u>	<u>\$ 5.38</u>	<u>\$ (6.03)</u>

*Note: Totals may not add due to rounding.*

# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2017

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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.

	2017	2016	Changes
Instruction and instruction-related activities	\$ 86.81	\$ 84.62	\$ 2.19
Home-to-school transportation	1.20	1.85	(0.65)
Food services	0.36	0.15	0.21
All other pupil services	2.30	1.78	0.52
Administration	6.41	7.67	(1.26)
Plant services	8.55	7.32	1.23
Interest on long-term obligations	6.67	6.66	0.01
Other outgo	1.86	0.93	0.93
Depreciation	8.06	8.05	0.01
<b>Total Net Cost of Governmental Activities</b>	<b>\$ 122.23</b>	<b>\$ 119.03</b>	<b>\$ 3.20</b>

*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.

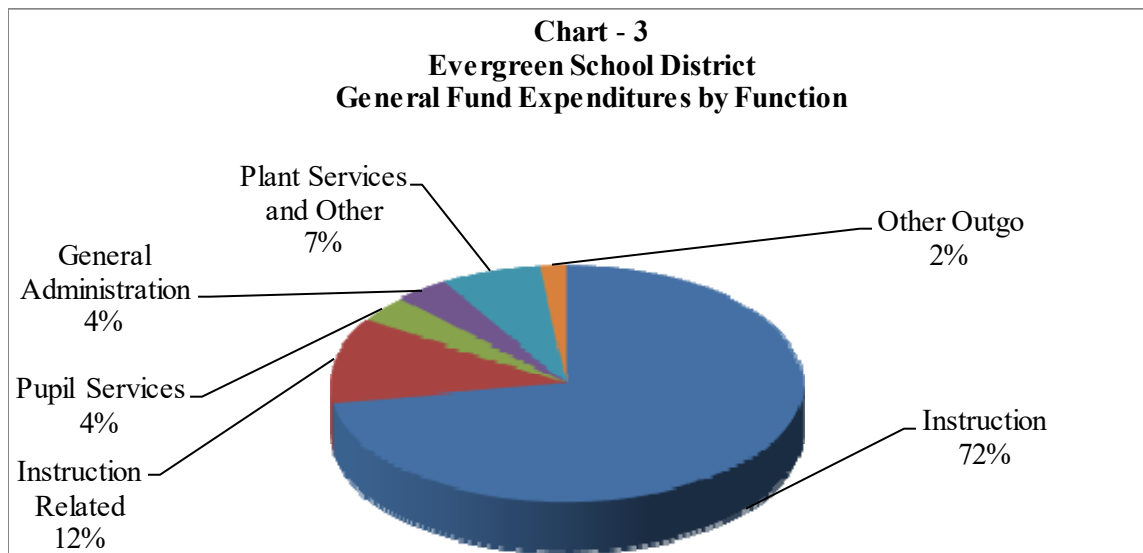
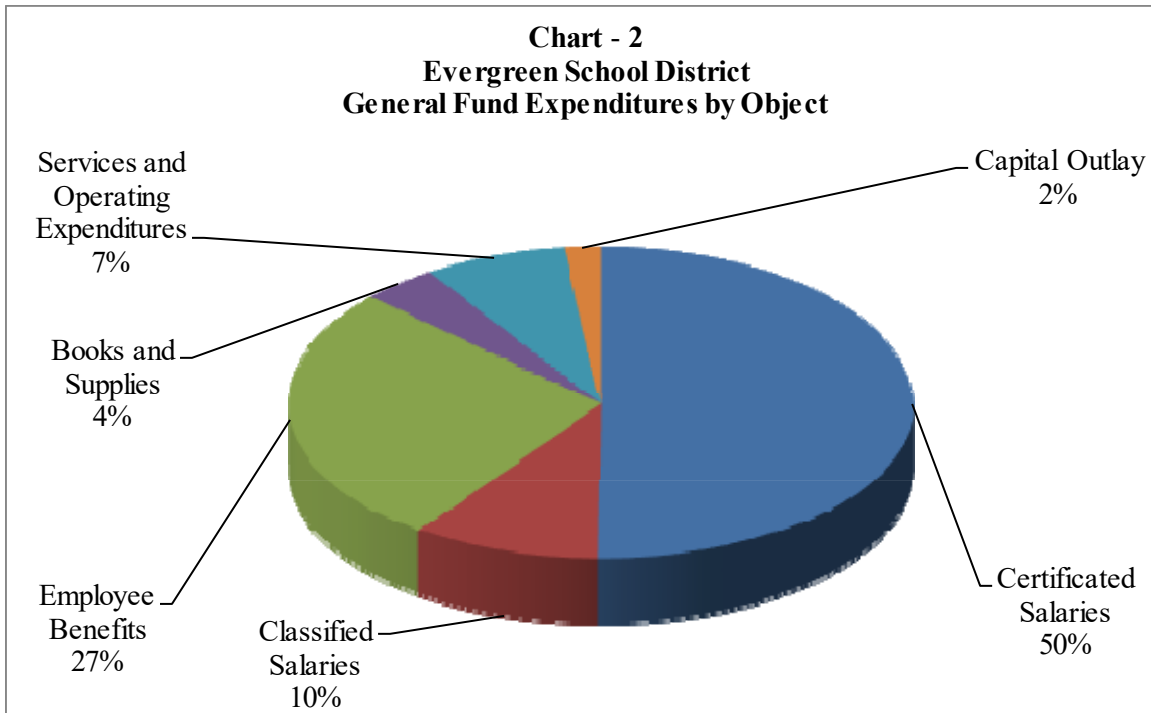
The District must spend at least 60% of its total certificated salaries component on classroom instruction activities. For the current fiscal year, the District spent approximately 70% of the District’s salaries on classroom instruction activity.

# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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### Available Reserves

The General Fund unappropriated fund balance of \$13.20 million and the 3% reserve of \$3.47 million equals the total available reserve balance of \$16.67 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.

# EVERGREEN SCHOOL DISTRICT

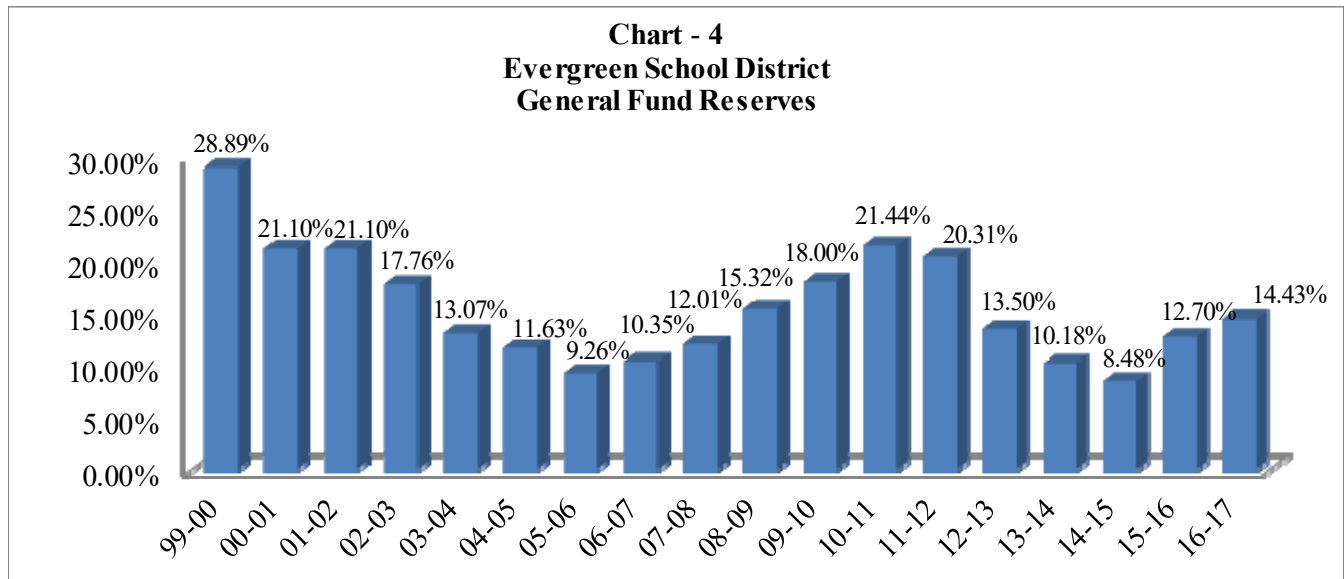
## MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### General Fund Budgetary Highlights

Chart 4 illustrates an operating deficit from 1999-2000 through 2016-2017. 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 13.43% in the current year; the District is working on its long-range budgeting process to address the structural issues of operating deficits. We are working with all District stakeholders to prioritize the expenditure allocations that will focus on the services to students and balancing the budget.



For the 2016-2017 fiscal year, the actual increase in fund balance was \$69 thousand higher than what originally was budgeted for, which is a 0.06% variance of the total General Fund budget.

**EVERGREEN SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

The following table summarizes the General Fund final budget to actual information for the year ended June 30, 2017.

	Final Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues	\$ 116,898,865	\$ 118,005,075	\$ 1,106,210
Total Expenditures	\$ 114,336,042	\$ 115,375,146	\$ (1,039,104)

The unfavorable variances of \$1,039,104 in total expenditures and favorable variances of \$1,106,210 in total revenues were primarily due to the STRS On-Behalf Pension Contributions final calculation was higher than the budgeted amount. Therefore the higher revenue and higher expenditure 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 2016-2017 the District had invested \$302.53 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 \$32.44 million from last year. (More detailed information about capital assets can be found in Note 6 to the financial statements).

	2017	2016	Changes
Land	\$ 26.87	\$ 26.87	\$ -
Construction in progress	31.96	2.54	29.42
Buildings and improvements	238.73	235.39	3.34
Equipment and vehicles	4.97	5.29	(0.32)
Total	<u>\$ 302.53</u>	<u>\$ 270.09</u>	<u>\$ 32.44</u>

# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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### 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.

Current or recent capital projects include:

- Roofing and canopy repairs at Chaboya Middle School
- New construction and modernization at Cedar Grove Elementary School
- Quimby Oak Middle School LOBO school innovation
- STEAM classrooms at Silver Oak Elementary School and Evergreen Elementary Schools
- Restroom addition at Evergreen Elementary School
- Restroom modernization at Millbrook Elementary School
- Portable classroom relocation and site work at Katherine Smith Elementary School

# EVERGREEN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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### Long-Term Debt

At year-end the District had \$149.24 million in general obligation bonds, a decrease of \$9.34 million from prior year and \$23.64 million in other long-term debt outstanding – an increase of \$1.52 million from last year - as shown in Table 6. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

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

	2017	2016	Changes
General obligation bonds	\$ 149.24	\$ 158.58	\$ (9.34)
Mello-Roos special tax bonds	0.58	1.13	(0.55)
Arbitrage liabilities	0.02	0.02	-
Compensated absence	0.30	0.30	-
OPEB obligation	22.74	20.67	2.07
Total	<u>\$ 172.88</u>	<u>\$ 180.70</u>	<u>\$ (7.82)</u>

*Note: Totals may not add due to rounding.*

### Net Pension Liability (NPL)

Per Government Accounting Standards Board (GASB) Statement Number 68 – *Accounting and Reporting for Pensions*, the District recognized its proportionate share of its unfunded pension liabilities with CalPERS and CalSTRS. The District as a result recognized over \$109 million in pension liabilities on the financial statements. These amounts were presented as long-term liabilities and are funded as a component of the annual required contribution that District makes to CalPERS/CalSTRS on behalf of its employees.

# **EVERGREEN SCHOOL DISTRICT**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2017**

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### **FACTORS BEARING ON THE DISTRICT’S FUTURE**

The 2016-2017 fiscal year was impacted by declined enrollment; on-going increases in step and column movement on the teacher’s salary schedule; higher medical and liability insurance premiums; special education encroachment; and other expenditure increases. This year the District recognized a surplus and an increase in unrestricted fund balance. The fund balance to 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 must find additional revenues and/or control the cost increases.

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

### **CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

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



# EVERGREEN SCHOOL DISTRICT

## STATEMENT OF NET POSITION YEAR ENDED JUNE 30, 2017

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 71,727,823
Receivables	2,574,257
Prepaid items	2,023,878
Stores inventories	88,748
Capital assets not depreciated	58,838,609
Capital assets, net of accumulated depreciation	124,343,350
<b>Total Assets</b>	<u>259,596,665</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	1,027,056
Deferred outflow from pension activities	20,687,249
<b>Total Deferred Outflows of Resources</b>	<u>21,714,305</u>
<b>LIABILITIES</b>	
Accounts payable	9,295,366
Interest payable	1,753,667
Unearned revenue	1,075,522
Long-term obligations	
Current portion of long-term obligation other than pensions	11,855,322
Noncurrent portion of long-term obligation other than pensions	161,025,149
Aggregate net pension liability	109,968,431
<b>Total Long-Term Obligations</b>	<u>282,848,902</u>
<b>Total Liabilities</b>	<u>294,973,457</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflow from pension activities	7,557,476
<b>Total Deferred Inflows of Resources</b>	<u>7,557,476</u>
<b>NET POSITION</b>	
Net investment in capital assets	56,731,763
Restricted for:	
Educational programs	2,778,106
Debt service	14,173,636
Food services	142,813
Capital projects	653,718
Self insurance	709,482
Unrestricted	(96,409,481)
<b>Total Net Position</b>	<u>\$ (21,219,963)</u>

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

**EVERGREEN SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 90,971,053	\$ -	\$ 10,789,602	\$ (80,181,451)
Instruction-related activities:				
Supervision of instruction	5,151,962	-	889,024	(4,262,938)
Instructional library, media, and technology	1,100,677	-	4,062	(1,096,615)
School site administration	8,212,731	-	281,425	(7,931,306)
Pupil services:				
Home-to-school transportation	1,285,663	-	-	(1,285,663)
Food services	4,111,024	1,460,160	2,035,380	(615,484)
All other pupil services	3,349,553	-	836,513	(2,513,040)
Administration:				
Data processing	745,437	-	-	(745,437)
All other administration	6,212,560	56,925	231,336	(5,924,299)
Plant services	9,219,916	33,021	53,442	(9,133,453)
Ancillary services	40,573	-	2,366	(38,207)
Enterprise services	24,732	-	-	(24,732)
Interest on long-term obligations	6,670,769	-	-	(6,670,769)
Other outgo	2,001,138	-	175,148	(1,825,990)
<b>Total Governmental Activities</b>	<b>\$ 139,097,788</b>	<b>\$ 1,550,106</b>	<b>\$ 15,298,298</b>	<b>(122,249,384)</b>

General revenues and subventions:

Property taxes, levied for general purposes	58,992,908
Property taxes, levied for debt service	13,694,316
Taxes levied for other specific purposes	2,472,327
Federal and state aid not restricted to specific	41,955,468
Interest and investment earnings	820,305
Interagency revenues	23,195
Miscellaneous	3,612,327
<b>Subtotal, General Revenues</b>	<b>121,570,846</b>
<b>Change in Net Position</b>	<b>(678,538)</b>
Net Position - Beginning	(20,541,425)
Net Position - Ending	<b>\$ (21,219,963)</b>

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

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**EVERGREEN SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS – BALANCE SHEET  
JUNE 30, 2017**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 25,579,274	\$ 28,510,313	\$ 14,594,462
Receivables	2,335,214	90,971	25,809
Due from other funds	174,653	11,492	-
Prepaid items	2,023,878	-	-
Stores inventories	32,781	-	-
<b>Total Assets</b>	<b>\$ 30,145,800</b>	<b>\$ 28,612,776</b>	<b>\$ 14,620,271</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,813,330	\$ 6,224,229	\$ -
Due to other funds	11,492	26,978	-
Unearned revenue	1,075,522	-	-
<b>Total Liabilities</b>	<b>3,900,344</b>	<b>6,251,207</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	2,071,659	-	-
Restricted	2,778,106	22,361,569	14,620,271
Committed	4,730,442	-	-
Assigned	-	-	-
Unassigned	16,665,249	-	-
<b>Total Fund Balances</b>	<b>26,245,456</b>	<b>22,361,569</b>	<b>14,620,271</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 30,145,800</b>	<b>\$ 28,612,776</b>	<b>\$ 14,620,271</b>

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

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<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,336,099	\$ 71,020,148
120,456	2,572,450
-	186,145
-	2,023,878
55,967	88,748
<u>\$ 2,512,522</u>	<u>\$ 75,891,369</u>

\$ 257,807	\$ 9,295,366
147,675	186,145
-	1,075,522
<u>405,482</u>	<u>10,557,033</u>

56,267	2,127,926
2,047,296	41,807,242
-	4,730,442
3,477	3,477
-	16,665,249
<u>2,107,040</u>	<u>65,334,336</u>

<u>\$ 2,512,522</u>	<u>\$ 75,891,369</u>
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**EVERGREEN SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 65,334,336</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
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	\$ 302,544,925
Accumulated depreciation is	<u>(119,362,966)</u>
Net Capital Assets	183,181,959
Deferred outflows resulting from pension activities are not recognized on the governmental funds but are deferred on the statement of net position.	20,687,249
In governmental funds, unmatured interest on long-term debt is recognized in the period when payment is due. Unmatured interest on long-term debt is recognized when it is incurred in the statement of net position.	(1,753,667)
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.	709,482
Deferred inflows from pension activities are not recognized on the governmental funds but are deferred on the statement of net position.	(7,557,476)
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.	1,027,056
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	149,242,024
Net OPEB obligations	22,741,552
Mello Roos special tax bonds	575,000
Arbitrage liability	21,797
Compensated absences (vacations)	300,098
Net pension liability	<u>109,968,431</u>
Total Long-Term Obligations	(282,848,902)
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ (21,219,963)</u></u></b>

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

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**EVERGREEN SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>REVENUES</b>			
Local control funding formula	\$ 96,308,844	\$ -	\$ -
Federal sources	4,676,297	-	-
Other state sources	10,856,189	-	89,715
Other local sources	6,180,721	419,535	13,700,330
<b>Total Revenues</b>	<b>118,022,051</b>	<b>419,535</b>	<b>13,790,045</b>
<b>EXPENDITURES</b>			
Current			
Instruction	83,460,822	-	-
Instruction-related activities:			
Supervision of instruction	4,726,635	-	-
Instructional library, media and technology	1,009,809	-	-
School site administration	7,534,718	-	-
Pupil services:			
Home-to-school transportation	1,179,523	-	-
Food services	-	-	-
All other pupil services	3,073,026	-	-
Administration:			
Data processing	683,897	-	-
All other administration	3,591,760	-	-
Plant services	7,858,556	514,037	-
Facility acquisition and construction	71,000	31,860,950	-
Ancillary services	37,224	-	-
Other outgo	2,001,138	-	-
Debt service			
Principal	-	-	10,315,000
Interest and other	-	-	4,525,746
<b>Total Expenditures</b>	<b>115,228,108</b>	<b>32,374,987</b>	<b>14,840,746</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,793,943</b>	<b>(31,955,452)</b>	<b>(1,050,701)</b>
<b>Other Financing Sources</b>			
Transfers in	-	-	-
Transfers out	(300,000)	-	-
<b>Net Financing Sources (Uses)</b>	<b>(300,000)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,493,943</b>	<b>(31,955,452)</b>	<b>(1,050,701)</b>
<b>Fund Balance - Beginning</b>	<b>23,751,513</b>	<b>54,317,021</b>	<b>15,670,972</b>
<b>Fund Balance - Ending</b>	<b>\$ 26,245,456</b>	<b>\$ 22,361,569</b>	<b>\$ 14,620,271</b>

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



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<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 96,308,844
1,760,022	6,436,319
125,211	11,071,115
2,593,632	22,894,218
<u>4,478,865</u>	<u>136,710,496</u>
-	83,460,822
-	4,726,635
-	1,009,809
-	7,534,718
-	1,179,523
3,771,633	3,771,633
-	3,073,026
-	683,897
147,041	3,738,801
134,906	8,507,499
834,976	32,766,926
-	37,224
-	2,001,138
550,000	10,865,000
55,711	4,581,457
<u>5,494,267</u>	<u>167,938,108</u>
<u>(1,015,402)</u>	<u>(31,227,612)</u>
300,000	300,000
-	(300,000)
<u>300,000</u>	<u>-</u>
(715,402)	(31,227,612)
2,822,442	96,561,948
<u>\$ 2,107,040</u>	<u>\$ 65,334,336</u>

**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, 2017**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ (31,227,612)**

**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	\$32,820,057	
Depreciation expense and disposal	<u>(8,142,015)</u>	
Net Expense Adjustment		24,678,042

Amortization of deferred refunding charges is an expense on the statement of activities and does not impact the governmental funds. (163,919)

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. 10,315,000

Amortization of the premium on long-term debt is not recognized in the governmental funds. In the government-wide statements, it is deferred and amortized over the life of the related debt. 965,322

Payment of principal on Mello Roos bonds is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net position and does not affect the statement of activities. 550,000

Payment of the retiree benefits is recorded as an expenditure in the governmental funds. However, the difference between the annual required contributions and the actual benefit payments made, is recorded as an additional expense in the statement of activities. The actual amount of the contribution was less than the annual required contributions. (2,071,079)

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. (1,938,633)

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, 2017**

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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.	(3,539)
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.	(1,867,659)
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.	13,240
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.	72,299
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (678,538)</b>

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

**EVERGREEN SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 707,675
Receivables	1,807
<b>Total Current Assets</b>	<u>709,482</u>
<b>NET POSITION</b>	
Restricted for insurance programs	709,482
<b>Total Net Position</b>	<u><u>\$ 709,482</u></u>

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, 2017**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
In-district premiums	\$ 1,214,284
<b>OPERATING EXPENSES</b>	
Insurance premiums	1,147,689
Operating Income	66,595
<b>NONOPERATING REVENUES</b>	
Interest income	5,704
<b>Change in Net Position</b>	72,299
<b>Total Net Position - Beginning</b>	637,183
<b>Total Net Position - Ending</b>	\$ 709,482

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

**EVERGREEN SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 1,330,526
Cash payments for insurance	(1,147,689)
Net Cash Provided by Operating Activities	<u>182,837</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	4,950
Net Cash Provided by Investing Activities	<u>4,950</u>
 Net Increase in Cash and Cash Equivalents	187,787
Cash and Cash Equivalents - Beginning	519,888
Cash and Cash Equivalents - Ending	<u><u>\$ 707,675</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 66,595
Adjustments to reconcile operating income to net cash used for operating activities:	
(Increase) in receivables	(400)
Decrease in interfund balances	116,642
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 182,837</u></u>

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

**EVERGREEN SCHOOL DISTRICT**

**FIDUCIARY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2017**

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Deposits and investments	\$ 253,381
<b>LIABILITIES</b>	
Due to student groups	\$ 253,381

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

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### 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.



# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

### Non Major Governmental Funds

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for 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 approving a development (*Education Code* sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

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

**Internal Service Fund** Internal service funds may be used to account for goods or services provided to other funds of the District on a cost reimbursement basis. The District established an insurance administration fund during the year that is accounted for in an internal service fund.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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**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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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**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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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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, 2017 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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### Deferred Outflows/Inflows of Resources

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

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' 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, 2017, 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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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### **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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### **Budgetary Data**

The budgetary process is prescribed by provisions of the California Education Code and requires the Governing Board to hold a public hearing and adopt an operating budget no later than July 1<sup>st</sup> 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (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 Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

This statement did not impact the financial statements.

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

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



# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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This statement did not impact the financial statements.

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

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

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

This statement did not impact the financial statements.

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

This statement did not impact the financial statements.

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

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

### **New Accounting Pronouncements**

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

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

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

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

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

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

In 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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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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 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;

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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- 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. 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.

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 71,020,148
Proprietary funds	707,675
Fiduciary funds	253,381
Total Deposits and Investments	<u>\$ 71,981,204</u>

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 273,873
Cash in revolving	15,300
Investments	<u>71,692,031</u>
Total Deposits and Investments	<u>\$ 71,981,204</u>

**Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The 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.

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**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
Money Market Mutual Fund	\$ 4,772	\$ 4,772	One to five years
Transamerica Investment Contract	654,902	654,902	One to five years
County Pooled Investment Fund	71,032,357	70,867,831	One to five years
Total	<u>\$ 71,692,031</u>	<u>\$ 71,527,505</u>	

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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### 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, 2017.

Investment Type	Cost	Fair Value	Rating as of Year End	
			AAA	Unrated
Money Market Mutual Fund	\$ 4,772	\$ 4,772	\$ -	\$ 4,772
Transamerica Investment Contract	654,902	654,902	654,902	-
County Pooled Investment Fund	71,032,357	70,867,831	-	70,867,831
Total	<u>\$ 71,692,031</u>	<u>\$ 71,527,505</u>	<u>\$ 654,902</u>	<u>\$ 70,872,603</u>

### 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, 2017, 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.

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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, 2017:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Money Market Mutual Fund	\$ 4,772	\$ -	\$ 4,772	\$ -	\$ -
Investment Contract	654,902	-	-	-	654,902
County Pool	71,032,357	-	-	-	71,032,357
<b>Total</b>	<b>\$ 71,692,031</b>	<b>\$ -</b>	<b>\$ 4,772</b>	<b>\$ -</b>	<b>\$ 71,687,259</b>

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

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2017, 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	\$ 708,437	\$ -	\$ -	\$ 116,488	\$ 824,925	\$ -
State Government						
Categorical aid	256,403	-	-	-	256,403	-
Lottery	1,029,120	-	-	-	1,029,120	-
Other State	1,125	-	-	-	1,125	-
Local Government						
Interest	78,369	90,971	25,809	3,968	199,117	1,807
Other Local Sources	261,760	-	-	-	261,760	-
<b>Total</b>	<b>\$2,335,214</b>	<b>\$ 90,971</b>	<b>\$ 25,809</b>	<b>\$ 120,456</b>	<b>\$ 2,572,450</b>	<b>\$ 1,807</b>



**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5 – PREPAID ITEMS**

Prepaid items at June 30, 2017 consist of health insurance premiums paid to various vendors totaling \$2,023,878 in the General Fund.

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 26,873,690	\$ -	\$ -	\$ 26,873,690
Construction in progress	2,542,598	29,422,321	-	31,964,919
Total Capital Assets Not Being Depreciated	29,416,288	29,422,321	-	58,838,609
Capital Assets Being Depreciated:				
Buildings and improvements	235,388,376	3,344,585	-	238,732,961
Furniture and equipment	5,286,820	53,151	366,616	4,973,355
Total Capital Assets Being Depreciated	240,675,196	3,397,736	366,616	243,706,316
Total Capital Assets	270,091,484	32,820,057	366,616	302,544,925
Less Accumulated Depreciation:				
Buildings and improvements	107,719,057	7,804,810	-	115,523,867
Furniture and equipment	3,868,510	251,701	281,112	3,839,099
Total Accumulated Depreciation	111,587,567	8,056,511	281,112	119,362,966
Governmental Activities Capital Assets, Net	\$ 158,503,917	\$ 24,763,546	\$ 85,504	\$ 183,181,959

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Governmental Activities**

Instruction	\$ 5,711,710
Supervision of instruction	323,471
Instructional library, media, and technology	69,107
School site administration	515,645
Home-to-school transportation	80,722
Food services	258,115
All other pupil services	210,305
Ancillary services	2,547
All general administration	255,868
Data processing	46,803
Plant services	582,218
Total Depreciation Expenses Governmental Activities	<u><u>\$ 8,056,511</u></u>

**NOTE 7 – INTERFUND TRANSACTIONS**

Interfund Receivable/Payables for the year ended June 30, 2017 consisted of the following:

		Due From		
		General Fund	Building Fund	Total
Due To	General Fund	\$ -	\$ 11,492	\$ 11,492
	Building Fund	26,978	-	26,978
	Non Major Governmental Funds	147,675	-	147,675
	Total	<u>\$ 174,653</u>	<u>\$ 11,492</u>	<u>\$ 186,145</u>

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 8 – DEFERRED OUTFLOWS OF RESOURCES**

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Deferred charges on refunding	\$ 1,190,975	\$ -	\$ 163,919	\$ 1,027,056
Deferred outflow from pension activities	9,389,148	20,687,249	9,389,148	20,687,249
Total	<u>\$ 10,580,123</u>	<u>\$ 20,687,249</u>	<u>\$ 9,553,067</u>	<u>\$ 21,714,305</u>

**NOTE 9 – ACCOUNTS PAYABLE**

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
Vendor payables	\$ 1,845,930	\$ 6,224,229	\$ 149,684	\$ 8,219,843
State apportionment	665,773	-	-	665,773
Salaries and benefits	211,521	-	-	211,521
Other payables	90,106	-	108,123	198,229
Total	<u>\$ 2,813,330</u>	<u>\$ 6,224,229</u>	<u>\$ 257,807</u>	<u>\$ 9,295,366</u>

**NOTE 10 – UNEARNED REVENUE**

Unearned revenue at June 30, 2017, consists of the following:

	General Fund
Other local grants	<u>\$ 1,075,522</u>

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 11 – LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
General Obligation Bonds					
Current interest bond	\$ 111,875,000	\$ -	\$ 10,315,000	\$ 101,560,000	\$ 10,315,000
Capital appreciation bonds	35,267,594	1,938,633	-	37,206,227	-
Premium on issuance of bond	11,441,119	-	965,322	10,475,797	965,322
Sub Total	158,583,713	1,938,633	11,280,322	149,242,024	11,280,322
Compensated Absences	296,559	3,539	-	300,098	-
Arbitrage Liability	21,797	-	-	21,797	-
Mello Roos	1,125,000	-	550,000	575,000	575,000
Net OPEB Obligation	20,670,473	3,421,596	1,350,517	22,741,552	-
Total	<u>\$ 180,697,542</u>	<u>\$ 5,363,768</u>	<u>\$ 13,180,839</u>	<u>\$ 172,880,471</u>	<u>\$ 11,855,322</u>

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

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue Series	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds	
					Outstanding July 1, 2016	Issued / Accreted	Redeemed / Defeased	Outstanding June 30, 2017
2003	Refunding	9/1/15	3-4.25%	\$ 9,670,000	\$ -	\$ -	\$ -	\$ -
2007	2006 A	8/1/31	4.0-6.0%	30,000,000	16,400,000	-	2,200,000	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	35,267,594	1,938,633	-	37,206,227
2012	Refunding	9/1/21	2.0-4.0%	7,700,000	7,140,000	-	1,165,000	5,975,000
2015	Refunding	9/1/24	2.0-5.0%	33,990,000	30,835,000	-	2,450,000	28,385,000
2016	2016	8/1/45	2.0-5.0%	50,000,000	50,000,000	-	4,500,000	45,500,000
			Subtotal	<u>\$ 161,358,712</u>	<u>\$ 147,142,594</u>	<u>\$ 1,938,633</u>	<u>\$ 10,315,000</u>	138,766,227
						Unamortized Premiums		10,475,797
						Total		<u>\$ 149,242,024</u>

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2018	\$ 11,085,000	\$ 4,278,051	\$ 15,363,051
2019	8,409,374	4,321,002	12,730,376
2020	6,237,576	4,368,775	10,606,351
2021	6,079,100	4,542,251	10,621,351
2022	6,005,480	5,032,972	11,038,452
2023-2027	26,698,038	31,764,356	58,462,394
2028-2032	18,106,994	27,522,247	45,629,241
2033-2037	15,390,000	6,306,817	21,696,817
2038-2042	11,985,000	3,951,900	15,936,900
2043-2046	13,390,000	1,118,800	14,508,800
Total	123,386,562	\$ 93,207,171	\$ 216,593,733
Accretion to date	15,379,665		
	<u>\$ 138,766,227</u>		

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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**Mello Roos Special Tax Bond**

The Mello-Roos Bonds were issued on behalf of the Community Facilities District No. 92-1 pursuant to the Mello-Roos Community Facilities Act of 1982. The bonds are included in the schedule of long-term debt and included in the government-wide statement of net position and are included in the governmental Debt Service fund to provide information on the receipts and debt service payments for reporting under the bond covenants. The District has covenanted for the benefit of the owners of the Bonds that, in the event of delinquencies in the payment of Special Tax installment will initiate action to foreclose the lien, provided delinquencies are in excess of three percent (3%) of the amount of the Special Taxes levied in the applicable Fiscal Year. Delinquencies did not exceed 3% for 2016-2017.

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

The bonds mature in 2018, as follows:

Year Ending June 30,	Principal	Interest	Total
<u>2018</u>	<u>\$ 575,000</u>	<u>\$ 13,656</u>	<u>\$ 588,656</u>

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 12 – FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ 300	\$ 15,300
Stores inventories	32,781	-	-	55,967	88,748
Prepaid expenditures	2,023,878	-	-	-	2,023,878
<b>Total Nonspendable</b>	<b>2,071,659</b>	<b>-</b>	<b>-</b>	<b>56,267</b>	<b>2,127,926</b>
<b>Restricted</b>					
Educational programs	2,778,106	-	-	-	2,778,106
Capital projects	-	22,361,569	-	653,718	23,015,287
Debt services	-	-	14,620,271	1,307,032	15,927,303
Food services	-	-	-	86,546	86,546
<b>Total Restricted</b>	<b>2,778,106</b>	<b>22,361,569</b>	<b>14,620,271</b>	<b>2,047,296</b>	<b>41,807,242</b>
<b>Committed</b>					
Post employment benefits	4,730,442	-	-	-	4,730,442
<b>Total Committed</b>	<b>4,730,442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,730,442</b>
<b>Assigned</b>					
Other	-	-	-	3,477	3,477
<b>Total Assigned</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,477</b>	<b>3,477</b>
<b>Unassigned</b>					
Reserve for economic uncertainties	3,465,843	-	-	-	3,465,843
Remaining unassigned	13,199,406	-	-	-	13,199,406
<b>Total Unassigned</b>	<b>16,665,249</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,665,249</b>
<b>Total</b>	<b>\$ 26,245,456</b>	<b>\$ 22,361,569</b>	<b>\$ 14,620,271</b>	<b>\$ 2,107,040</b>	<b>\$ 65,334,336</b>

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

#### Plan Description

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

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The District's policy is to fund the obligation on a pay-as-you-go basis. For fiscal year 2016-2017, the District contributed \$1,350,517 to the plan.

#### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 4,025,223
Interest on net OPEB asset/obligation	826,905
Adjustment to annual required contribution	(1,430,532)
Annual OPEB cost	<u>3,421,596</u>
Funding by the District	
Pay-as-you-go amount	(881,027)
Current year subsidized premiums	(469,490)
Total contributions made	<u>(1,350,517)</u>
Increase in net OPEB asset/obligation	2,071,079
Net OPEB asset/obligation, beginning of year	20,670,473
Net OPEB asset/obligation, end of year	<u>\$ 22,741,552</u>



**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**Trend Information**

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

Year Ended	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset/Obligation
2017	\$ 3,421,596	\$ 1,350,517	39%	\$ 22,741,552
2016	5,043,180	1,623,120	32%	20,670,473
2015	4,795,787	1,711,147	36%	17,250,413

**Funded Status and Funding Progress**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $([b - a] / c)$
July 1, 2016	\$ -	\$ 33,224,885	\$ 33,224,885	0%	\$ 68,023,442	49%
July 1, 2014	-	40,133,096	40,133,096	0%	63,359,043	63%
July 1, 2012	-	38,240,571	38,240,571	0%	63,140,005	61%

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

**Actuarial Methods and Assumptions**

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

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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In the July 1, 2016, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4 percent discount rate, based on the long-term rate of earnings that the District expects to earn on its investments. Healthcare cost trend rates were assumed to increase at a rate of 5 percent. The UAAL is being amortized on a closed basis method using the level dollar method. The remaining amortization period at July 1, 2016, was 22 years.

### **NOTE 14 – RISK MANAGEMENT**

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

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, 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 2017, 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.

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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### NOTE 15 – EMPLOYEE RETIREMENT SYSTEMS

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

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

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 91,580,535	\$ 14,686,376	\$ 6,848,636	\$ 8,193,242
CalPERS	18,387,896	6,000,873	708,840	2,957,808
Total	<u>\$ 109,968,431</u>	<u>\$ 20,687,249</u>	<u>\$ 7,557,476</u>	<u>\$ 11,151,050</u>

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, 2015, 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](http://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.

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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, 2017, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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 percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

**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, 2017, are presented above and the District's total contributions were \$7,093,698.

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

At June 30, 2017, 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	\$ 91,580,535
State's proportionate share of the net pension liability associated with the District	52,135,165
Total	<u>\$ 143,715,700</u>

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.1132 percent and 0.1205 percent, resulting in a net decrease in the proportionate share of 0.0073 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$8,193,242. In addition, the District recognized pension expense and revenue of \$5,039,412 for support provided by the State. At June 30, 2017, 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 measurement date	\$ 7,093,698	\$ -
Differences between projected and actual earnings on plan investments	7,280,608	-
Differences between expected and actual experience in the measurement of the total pension liability	-	(2,234,003)
Change in proportions	312,070	(4,614,631)
Total	<u>\$ 14,686,376</u>	<u>\$ (6,848,634)</u>

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 remaining deferred outflows/(inflows) of resources will be amortized as follows:

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2018	\$ (955,570)
2019	(955,570)
2020	3,117,833
2021	1,678,693
2022	(1,176,823)
2023	(964,520)
Total	<u>\$ 744,043</u>

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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### 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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

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

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
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 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 131,805,044
Current discount rate (7.60%)	\$ 91,580,535
1% increase (8.60%)	\$ 58,173,528

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### 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, 2015 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, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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 percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%



# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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### 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, 2017, are presented above and the total District contributions were \$2,189,693.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$18,387,896. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.0931 percent and 0.0945 percent, resulting in a net decrease in the proportionate share of 0.0014 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$2,957,808. At June 30, 2017, 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 measurement date	\$ 2,189,693	\$ -
Differences between projected and actual earnings on plan investments	2,853,210	-
Change in assumption	-	(552,447)
Differences between expected and actual experience	790,856	-
Change in proportions	167,114	(156,393)
Total	<u>\$ 6,000,873</u>	<u>\$ (708,840)</u>

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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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 remaining deferred outflows/(inflows) of resources will be amortized as follows:

Year Ended June 30,	Deferred (Outflows)/Inflows Amortization
2018	\$ 509,434
2019	502,672
2020	1,345,572
2021	744,662
Total	<u>\$ 3,102,340</u>

### 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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

**Discount Rate**

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

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 27,434,843
Current discount rate (7.65%)	\$ 18,387,896
1% increase (8.65%)	\$ 10,854,532

**EVERGREEN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

**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, 2017.

**Construction Commitments**

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Chaboya Middle School: Roofing and Canopy Repairs	\$ 24,792	July 2017
Katherine R. Smith: Portable Relocation, Improvements and Sitework	215,137	August 2017
Millbrook School: Restroom Upgrade	344,296	August 2017
Evergreen School: Restroom Addition	63,882	August 2017
Cedar Grove Phase I: Classroom Replacement and Modernization	2,128,488	March 2018
Cedar Grove Phase II: Classroom Replacement and Modernization	4,316,537	March 2018
Quimby Oak Middle School: Lobo School Innovation	6,712,479	March 2018
Total	<u>\$ 13,805,611</u>	

# EVERGREEN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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

The District is a member of the South Bay Area School Insurance Authority (SBASIA), the CSAC Excess Insurance Authority (CSACEIA), and the East Valley Transportation Agency (EVT). The District pays an annual premium to the applicable entity for its worker's compensation, property liability coverage, or services provided. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District has appointed 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, 2017, the District made payments of \$1,172,238, \$1,147,690, and \$722,755 to SBASIA, CSACEIA, and EVT, respectively for services rendered.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**EVERGREEN SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive (Negative) Final to Actual</b>
<b>REVENUES</b>				
Local control funding formula	\$96,263,401	\$ 96,229,300	\$ 96,308,844	\$ 79,544
Federal sources	4,490,466	4,540,045	4,676,297	136,252
Other state sources	10,178,819	10,581,603	10,856,189	274,586
Other local sources	5,193,115	5,547,917	6,163,745	615,828
<b>Total Revenues</b>	<b>116,125,801</b>	<b>116,898,865</b>	<b>118,005,075</b>	<b>1,106,210</b>
<b>EXPENDITURES</b>				
Certificated salaries	58,008,835	57,532,410	57,817,310	(284,900)
Classified salaries	10,735,623	10,931,202	11,235,395	(304,193)
Employee benefits	31,371,153	30,997,148	31,156,733	(159,585)
Books and supplies	4,802,336	4,716,542	4,512,363	204,179
Services and operating expenditures	8,118,053	8,161,652	8,528,056	(366,404)
Other outgo	2,097,088	1,997,088	2,001,138	(4,050)
Capital outlay	-	-	124,151	(124,151)
<b>Total Expenditures</b>	<b>115,133,088</b>	<b>114,336,042</b>	<b>115,375,146</b>	<b>(1,039,104)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>992,713</b>	<b>2,562,823</b>	<b>2,629,929</b>	<b>67,106</b>
<b>Other Financing Sources (Uses)</b>				
Other sources	-	104,156	147,038	42,882
Transfers out	-	(300,000)	(300,000)	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>(195,844)</b>	<b>(152,962)</b>	<b>42,882</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>992,713</b>	<b>2,366,979</b>	<b>2,476,967</b>	<b>109,988</b>
<b>Fund Balance - Beginning</b>	<b>22,038,047</b>	<b>22,038,047</b>	<b>22,038,047</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$23,030,760</b>	<b>\$ 24,405,026</b>	<b>24,515,014</b>	<b>\$ 109,988</b>
<b>Special Reserve Fund For Postemployment Benefits</b>			<b>1,730,442</b>	
<b>Fund Balance - General Fund GAAP Basis</b>			<b>\$ 26,245,456</b>	

See accompanying note to required supplementary information.

**EVERGREEN SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c])
July 1, 2016	\$ -	\$ 33,224,885	\$ 33,224,885	0%	\$ 68,023,442	49%
July 1, 2014	-	40,133,096	40,133,096	0%	63,359,043	63%
July 1, 2012	-	38,240,571	38,240,571	0%	63,140,005	61%

Note: The District has committed funds in Retiree Benefit Special Reserve fund and the general fund in the amount of \$4,730,442 as of June 30, 2017. These amounts although committed for payment of the OPEB liability are revocable and hence are not included in the actuarial value of assets.

See accompanying note to required supplementary information.



**EVERGREEN SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PENSION PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>			
District's proportion of the net pension liability	<u>0.1132%</u>	<u>0.1205%</u>	<u>0.1199%</u>
District's proportionate share of the net pension liability	\$ 91,580,535	\$ 81,132,322	\$ 70,072,007
State's proportionate share of the net pension liability associated with the District	<u>52,135,165</u>	<u>42,910,055</u>	<u>42,312,503</u>
Total	<u>\$ 143,715,700</u>	<u>\$ 124,042,377</u>	<u>\$ 112,384,510</u>
District's covered payroll	<u>\$ 56,700,927</u>	<u>\$ 50,656,968</u>	<u>\$ 54,001,099</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>162%</u>	<u>160%</u>	<u>130%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
<b>CalPERS</b>			
District's proportion of the net pension liability (asset)	<u>0.0931%</u>	<u>0.0945%</u>	<u>0.0922%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 18,387,896</u>	<u>\$ 13,925,990</u>	<u>\$ 10,470,130</u>
District's covered payroll	<u>\$ 11,167,585</u>	<u>\$ 10,472,116</u>	<u>\$ 9,735,849</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>165%</u>	<u>133%</u>	<u>108%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

*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 DISTRICT PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

*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

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

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

#### **Schedule of Other Postemployment Benefits (OPEB) Funding Progress**

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

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

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

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

*Changes in Assumptions* – There is no change in economic assumption for CalSTRS from the previous valuation. CalPERS discount rate was changed from 7.50% to 7.65% in 2016.

#### **Schedule of District Contributions**

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

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

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

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*SUPPLEMENTARY INFORMATION*

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**EVERGREEN SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I - Basic grants low-income and neglected	84.010	14329	\$ 1,265,046
Title I, Part C, Migrant education:			
Regular program	84.011	14838	154,981
Summer program	84.011	10005	24,111
Even Start	84.011	14768	<u>9,457</u>
Total Title I, Part C, Migrant education cluster:			<u>188,549</u>
Improving teacher quality	84.367	14341	312,372
English language acquisition	84.365	10084	400,933
Community Learning Centers	84.287	14349	38,500
Special education - Individuals with Disabilities Education Act:			
Basic local assistance	84.027	13379	1,970,435
Preschool grants	84.173	13430	60,751
Preschool local entitlement	84.027A	13682	166,827
Mental health allocation plan	84.027A	14468	121,158
Preschool staff development	84.173A	13431	<u>605</u>
Total IDEA cluster:			<u>2,319,776</u>
Total U.S Department of Education			<u>4,525,176</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child nutrition cluster			
Especially needy breakfast	10.553	13526	260,691
National school lunch	10.555	13524	1,499,331
National school lunch - Commodity [1]	10.555	13396	<u>294,563</u>
Total Child nutrition cluster:			<u>2,054,585</u>
Total U.S. Department of Agriculture			<u>2,054,585</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through CDE:			
Medical Assistance Program	93.778	10013	151,121
Total Federal Grants			<u>\$ 6,730,882</u>

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

See accompanying note to supplementary information.

# EVERGREEN SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

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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

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jim Zito	President	2018
Sylvia Alvarez	President Pro Tem	2018
Bonnie Mace	Clerk	2020
Leila Welsch	Trustee	2020
Balalji Venkatraman	Trustee	2018

### ADMINISTRATION

Katherine Gomez	Superintendent
Biling (Nelly) Yang	Chief Business Officer

See accompanying note to supplementary information.

**EVERGREEN SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	4,444.81	4,447.04
Fourth through sixth	4,073.17	4,072.39
Seventh and eighth	2,918.02	2,914.55
Total Regular ADA	<u>11,436.00</u>	<u>11,433.98</u>
Extended Year Special Education		
Transitional kindergarten through third	4.43	4.43
Fourth through sixth	2.09	2.09
Seventh and eighth	1.48	1.49
Total Extended Year Special Education	<u>8.00</u>	<u>8.01</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	4.16	4.26
Seventh and eighth	2.10	2.07
Total Special Education, Nonpublic, Nonsectarian Schools	<u>6.26</u>	<u>6.33</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.60	0.60
Seventh and eighth	0.52	0.52
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>1.12</u>	<u>1.12</u>
Total ADA	<u><u>11,451.38</u></u>	<u><u>11,449.44</u></u>

See accompanying note to supplementary information.

**EVERGREEN SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	1986-87	2016-2017	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	Not applicable	Complied
Grades 1 - 3	50,400				
Grade 1		50,400	180	Not applicable	Complied
Grade 2		50,400	180	Not applicable	Complied
Grade 3		50,400	180	Not applicable	Complied
Grades 4 - 6	54,000				
Grade 4		54,000	180	Not applicable	Complied
Grade 5		54,000	180	Not applicable	Complied
Grade 6		54,000	180	Not applicable	Complied
Grades 7 - 8	54,000				
Grade 7		58,260	180	Not applicable	Complied
Grade 8		58,260	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, 2017**

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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
	<u>                    </u>	<u>                    </u>
FUND BALANCE		
Balance, June 30, 2017, Unaudited Actuals	\$ 24,515,014	\$ 1,730,442
To conform with GASB 54, the District consolidated Fund 20, Retiree Benefit Special Reserve Fund into the General Fund.	<u>1,730,442</u>	<u>(1,730,442)</u>
Balance, June 30, 2017, Audited Financial Statements	<u><u>\$ 26,245,456</u></u>	<u><u>\$ -</u></u>

See accompanying note to supplementary information.

**EVERGREEN SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

	(Budget) 2018 <sup>1</sup>	2017	2016	2015
GENERAL FUND <sup>3</sup>				
Revenues	\$ 111,960,821	\$ 118,005,075	\$ 122,235,918	\$ 103,340,085
Expenditures	116,371,611	115,528,108	114,149,447	105,007,150
INCREASE (DECREASE) IN FUND BALANCE	\$ (4,410,790)	\$ 2,476,967	\$ 8,086,471	\$ (1,667,065)
ENDING FUND BALANCE	\$ 20,104,224	\$ 24,515,014	\$ 22,038,048	\$ 13,951,577
AVAILABLE RESERVES <sup>2</sup>	\$ 9,569,835	\$ 16,665,249	\$ 14,492,211	\$ 8,906,865
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	8.22%	14.43%	12.70%	8.48%
LONG-TERM OBLIGATIONS	\$ 161,025,149	\$ 172,880,471	\$ 180,697,542	\$ 127,895,222
K-8 AVERAGE DAILY ATTENDANCE AT P-2	11,033	11,451	11,962	12,496

The General Fund balance has increased by \$10,563,437 over the past two years. The increase mainly is because the District received \$6.3 million one-time unrestricted Mandated Block grant in 2015-16 and \$2.56 million in 2016-17 and \$0.86M one-time restricted Educator Effectiveness grant during the 2015-16 fiscal year. The fiscal year 2017-18 budget projects a fund balance decrease of \$4,410,790. 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, but anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term obligations have increased by \$44,985,249 over the past two years.

Average daily attendance has decreased by 1,045 over the past two years. A decrease of 418 ADA is anticipated during fiscal year 2017-18.

<sup>1</sup> Budget 2018 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances contained within the General Fund.

<sup>3</sup> General Fund amounts excluded activity related to the consolidation of the Retiree Benefits Special Reserve fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

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**EVERGREEN SCHOOL DISTRICT**

**NON MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 294,803	\$ 3,467	\$ 731,979
Receivables	117,100	10	2,164
Stores inventories	55,967	-	-
<b>Total Assets</b>	<b>\$ 467,870</b>	<b>\$ 3,477</b>	<b>\$ 734,143</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 177,382	\$ -	\$ 80,425
Due to other funds	147,675	-	-
<b>Total Liabilities</b>	<b>325,057</b>	<b>-</b>	<b>80,425</b>
<b>Fund Balances:</b>			
Nonspendable	56,267	-	-
Restricted	86,546	-	653,718
Assigned	-	3,477	-
<b>Total Fund Balances</b>	<b>142,813</b>	<b>3,477</b>	<b>653,718</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 467,870</b>	<b>\$ 3,477</b>	<b>\$ 734,143</b>

See accompanying note to supplementary information.

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<b>Mello Roos Debt Service Fund</b>	<b>Total Non Major Governmental Funds</b>
\$ 1,305,850	\$ 2,336,099
1,182	120,456
-	55,967
<u>\$ 1,307,032</u>	<u>\$ 2,512,522</u>

\$ -	\$ 257,807
-	147,675
<u>-</u>	<u>405,482</u>

-	56,267
1,307,032	2,047,296
-	3,477
<u>1,307,032</u>	<u>2,107,040</u>
<u>\$ 1,307,032</u>	<u>\$ 2,512,522</u>

**EVERGREEN SCHOOL DISTRICT**

**NON MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 1,760,022	\$ -	\$ -
Other state sources	125,211	-	-
Other local sources	1,825,632	34	151,490
<b>Total Revenues</b>	<b>3,710,865</b>	<b>34</b>	<b>151,490</b>
<b>EXPENDITURES</b>			
Current			
Pupil services:			
Food services	3,771,633	-	-
All other administration	147,041	-	-
Plant services	85,294	-	49,612
Facility acquisition and construction	-	-	834,976
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>4,003,968</b>	<b>-</b>	<b>884,588</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(293,103)</b>	<b>34</b>	<b>(733,098)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	300,000	-	-
<b>Net Financing Sources (Uses)</b>	<b>300,000</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>6,897</b>	<b>34</b>	<b>(733,098)</b>
<b>Fund Balance - Beginning</b>	<b>135,916</b>	<b>3,443</b>	<b>1,386,816</b>
<b>Fund Balance - Ending</b>	<b>\$ 142,813</b>	<b>\$ 3,477</b>	<b>\$ 653,718</b>

See accompanying note to supplementary information.

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<b>Mello Roos Debt Service Fund</b>	<b>Total Non Major Governmental Funds</b>
\$ -	\$ 1,760,022
-	125,211
616,476	2,593,632
<u>616,476</u>	<u>4,478,865</u>
-	3,771,633
-	147,041
-	134,906
-	834,976
550,000	550,000
55,711	55,711
<u>605,711</u>	<u>5,494,267</u>
<u>10,765</u>	<u>(1,015,402)</u>
-	300,000
-	300,000
10,765	(715,402)
1,296,267	2,822,442
<u>\$ 1,307,032</u>	<u>\$ 2,107,040</u>

# EVERGREEN SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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

Description	CFDA Number	Amount
Federal revenues reported in the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 6,436,319
Commodities are not recorded on the financial statements.	10.555	294,563
Total Schedule of Expenditures of Federal Awards		<u>\$ 6,730,882</u>

#### 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.



# EVERGREEN SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### **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.

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 27, 2017.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
November 27, 2017



**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, 2017. 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.

### ***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, 2017.

### **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 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.

*Vavrinch, Trine, Day & Co. LLP*

Palo Alto, California

November 27, 2017



## 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 *2016-2017 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, 2017.

### ***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 *2016-2017 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.

### ***Unmodified Opinion***

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

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

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
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
Mental Health Expenditures	Yes
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, See Below
Immunizations	No, See Below
<b>CHARTER SCHOOLS</b>	
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 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 did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

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  
November 27, 2017

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

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**EVERGREEN SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A Grants to LEAs</u>
<u>84.027 and 84.173</u>	<u>Special Education IDEA Cluster</u>

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

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**EVERGREEN SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**EVERGREEN SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**EVERGREEN SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**EVERGREEN SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

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Governing Board  
Evergreen School District  
San Jose, California

In planning and performing our audit of the financial statements of Evergreen School District (District), for the year ended June 30, 2017, we considered various matters in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 27, 2017, on the financial statements of the District.

***DEFICIT SPENDING***

**Observation**

During the audit of the internal controls over budgeting, we considered the District’s multi-year projections. The projections are dependent on various factors such as projected enrollment for the upcoming three years, state funding as calculated in the Local Control Funding Formula, projected salary increases, projected pension rate increases for CalPERS and CalSTRS and other projections of revenues and expenditures.

While these projections are the management’s best estimates of events that will occur in the future, various other factors may impact these projections such as the state of the economy, enrollment and increases in pension and health benefit costs. In addition, the California Department of Education recommends maintaining reserves in an amount of at least 3% of total District’s General Fund expenditures.

Over the past several years the District’s enrollment declined by over 10%. Additional decreases are projected over the course of the next three years. Every student enrolled generates over \$7,000 in funding from State 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. 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.

**Recommendation**

Reserves should be utilized for one-time expenditure requirements that are non-routine in nature. It is not common for local governments to utilize reserves for routine type of expenditure. 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.