

**LOS GATOS-SARATOGA JOINT
UNION HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

This page left blank intentionally.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2017

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Fiduciary Funds - Statement of Net Position	23
Fiduciary Funds - Statement of Changes in Net Position	24
Notes to Financial Statements	25

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	59
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	60
Schedule of the District's Proportionate Share of the Net Pension Liability	61
Schedule of District Pension Contributions	62
Note to Required Supplementary Information	63

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	65
Local Education Agency Organization Structure	66
Schedule of Average Daily Attendance	67
Schedule of Instructional Time	68
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	69
Schedule of Financial Trends and Analysis	70
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	73
Note to Supplementary Information	75

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	77
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	79
Report on State Compliance	81

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	85
Financial Statement Findings	86
Federal Awards Findings and Questioned Costs	87
State Awards Findings and Questioned Costs	88
Summary Schedule of Prior Audit Findings	90

FINANCIAL SECTION

This page left blank intentionally.



INDEPENDENT AUDITOR'S REPORT

Governing Board
Los Gatos-Saratoga Joint Union High School District
Los Gatos, 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 Los Gatos-Saratoga Joint Union High 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 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 District'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 District'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 Los Gatos-Saratoga Joint Union High School 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, 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 Los Gatos-Saratoga Joint Union High School District's basic financial statements. The 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 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information including the Schedule of Expenditures of Federal Award's 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 December 8, 2017, on our consideration of the Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Los Gatos-Saratoga Joint Union High School 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 Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting and compliance.


Palo Alto, California
December 8, 2017



Governing Board
Cynthia Chang
Robin Mano
Douglas Ramezane
Rosemary Rossi
Katherine Tseng
Superintendent
Bob Misteale

This section of Los Gatos-Saratoga Union High School District's 2016-2017 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

PROFILE OF THE DISTRICT

The Los Gatos-Saratoga Union High School District (the District) was founded in 1887 to provide quality secondary education to the residents of Los Gatos, Monte Sereno, and Saratoga in Santa Clara County and portions of the Santa Cruz mountains area in Santa Cruz County. With a long tradition of academic excellence the District operates two comprehensive high schools that are fully accredited by the Western Association of Schools and Colleges. The District's two campuses – Los Gatos High School (LGHS) and Saratoga High School (SHS) – serve more than 3,400 students. The District also operates an alternative education program, VALOR, an Independent Study Program and coordinates with West Valley Junior College to provide a Middle College program.

The cornerstones of the educational program are a strong focus on academics, establishment of clear goals for students, provision for comprehensive elective and advanced placement programs, availability of viable alternative and special programs and maintenance of a learning environment characterized by traditional discipline, a highly trained and motivated staff and strong leadership. By all student achievement measures, District schools are in the top percentiles of all high schools in the State. The schools have also been recognized nationally for excellence in academic achievement.

The District has a long-standing and comprehensive strategic planning process that includes annual updating of district goals and the development of educational goals in accordance with the single plan for student achievement and the Local Control Accountability Plan (LCAP). The mission of the District is to maximize the learning of all students. The graduation rate for students is almost 100% and nearly all graduates go on to pursue further studies.

The District's students come from an enriching mix of ethnic backgrounds including a sizeable portion of immigrants from Asia, South Asia, and the Middle East. Students prepare to make meaningful, positive contributions to our world. The District takes great pride in its exceptional staff, parent support and student achievement.

FINANCIAL HIGHLIGHTS

A school district is deemed a "Basic Aid District" when the assessed valuation of the district increases to the point where the local property taxes exceed the State's calculated Local Control Funding Formula (LCFF) for the District. The District became Basic Aid in the early 1990's. Property tax revenue is the primary source for all instructional programs and provides the vast majority of the resources to pay for all operating costs in the General Fund of the District. Because funding relies on assessed valuation, the impact of a recession could have a negative effect upon local property tax revenues of the District. Therefore, the District continues to use conservative estimates when making long-term commitments with district funds.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

The General Fund expenditures per student in 2016-2017 were \$16,694. This was an increase of \$836 from last year's per student spending of \$15,858 in 2015-2016

The 2011-12 year marked the first year of parcel tax income. With the anemic growth in property values and reduction in state categorical money through a basic aid "fair share" reduction, the governing board authorized a parcel tax election on May 3, 2011. The parcel tax passed with a 72 percent passage rate and became effective July 1, 2011. The parcel tax was reauthorized in May 2016, effective 7/1/2017 and sunseting on 6/30/2025. The parcel tax generated \$961,661 in 2016-2017. The tax is \$49 per parcel per year and a senior citizen exemption is available to seniors 65 years or older. A parcel tax oversight committee comprised of community members ensured that these funds were used for students and programs, in full compliance with voter authorized activities, and not for administrative salaries.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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, deferred outflows, liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

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

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

The District has two 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 governmental funds statements and the government-wide statements to better explain the relationship (or differences) between them.
- 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 those to whom the assets belong use only for their intended purposes and the assets reported in these funds. 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.

LOS GATOS-SARATOGA JOINT UNION HIGH 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 \$3,939,318 as of June 30, 2017. This table summarizes the District's net position. The net position in the current year increased due to the redemption of the long-term debt.

Los Gatos-Saratoga Joint Union High School District			
Net Position			
(in thousands of dollars)			
	Total District	Total District	Net Change
	2017	2016	
Assets			
Current and other assets	\$ 84,958	\$ 45,193	\$ 39,765
Capital assets	99,768	85,072	14,696
Total Assets	<u>184,726</u>	<u>130,265</u>	<u>54,461</u>
Deferred Outflow of Resources			
Deferred outflows related to pensions	<u>8,487</u>	<u>3,526</u>	<u>4,961</u>
Liabilities			
Liabilities	7,778	4,766	3,012
Long-term debt other than pensions	134,111	86,207	47,904
Aggregate net pension liability	44,370	37,502	6,868
Total Liabilities	<u>186,259</u>	<u>128,475</u>	<u>57,784</u>
Deferred Inflow of Resources			
Deferred amounts on refunding	201	417	(216)
Deferred inflows related to pension	2,812	4,125	(1,313)
Total Deferred Inflow of Resources	<u>3,013</u>	<u>4,542</u>	<u>(1,529)</u>
Net Position			
Net investment in capital assets	26,321	25,103	1,218
Restricted	15,447	12,072	3,375
Unrestricted	(37,829)	(36,401)	(1,428)
Total Net Position	<u>\$ 3,939</u>	<u>\$ 774</u>	<u>\$ 3,165</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Total revenues surpassed expenses, increasing net position over last year. This table summarizes this information.

Los Gatos-Saratoga Joint Union High School District			
Changes in Net Position			
(in thousands of dollars)			
	Total District	Total District	Net Change
	2017	2016	
Revenues			
Program revenues			
Grants and contributions	\$ 5,622	\$ 2,405	\$ 3,217
Property taxes	58,229	53,651	4,578
Other federal and state revenue	2,150	3,111	(961)
Other general revenues	1,319	5,144	(3,825)
Total Revenues	<u>67,320</u>	<u>64,311</u>	<u>3,009</u>
Expenses			
Instruction related	40,901	39,305	1,596
Student support services	5,505	4,586	919
Administration	4,286	4,246	40
Maintenance and operations	8,148	6,086	2,062
Other	5,315	5,218	97
Total Expenses	<u>64,155</u>	<u>59,441</u>	<u>4,714</u>
Change in Net Position	<u>\$ 3,165</u>	<u>\$ 4,870</u>	<u>\$ (1,705)</u>

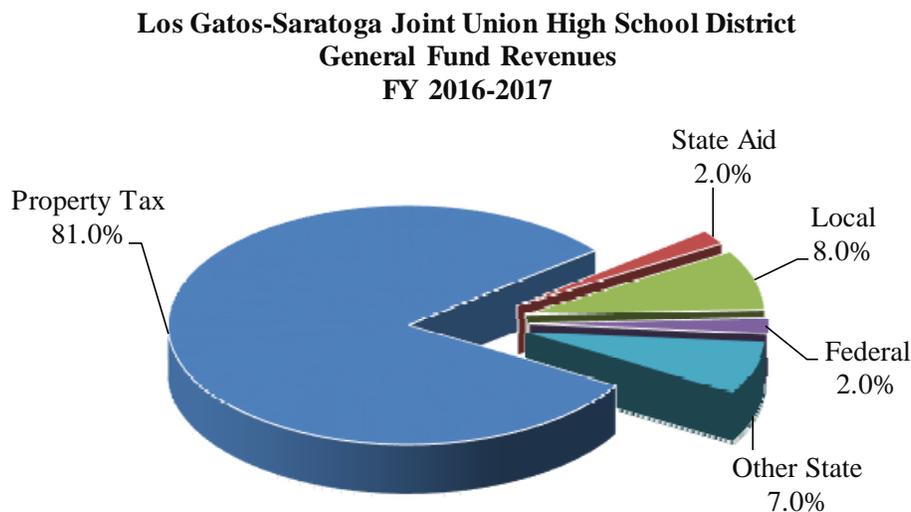
LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

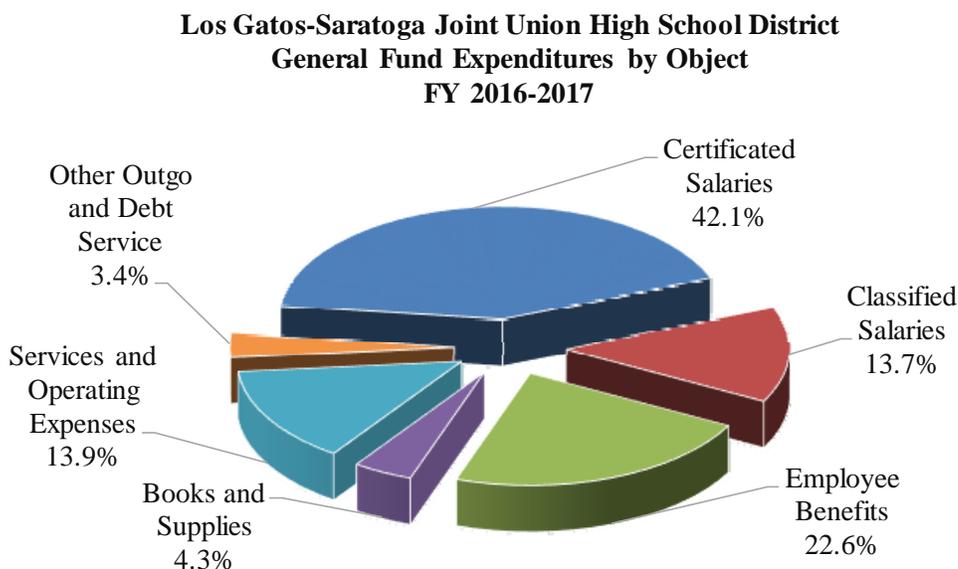
JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S GENERAL FUND

The District is basic aid, which means that the District relies on local property taxes rather than State aid for the majority of its revenue. General Fund revenues for 2016-2017 excluding transactions related to the Special Revenue Fund for other than Capital Outlay Fund, d by \$1,914,345 (4.6%) over the previous year. Local Control Funding Formula (LCFF) revenues d by -42.72%(). (Note: Other charts are incorporated in Adopted Budget on the District Web Page www.lgsuhd.org.)



Expenditures increased by \$2,375,322 over the previous year. As is common with virtually all school districts, the vast majority of expenditures in the General Fund are for salaries and benefits. Of the total amount expended during 2016-2017, 78.3% was spent on salaries and benefits. See the chart below for a breakdown of General Fund expenditures.



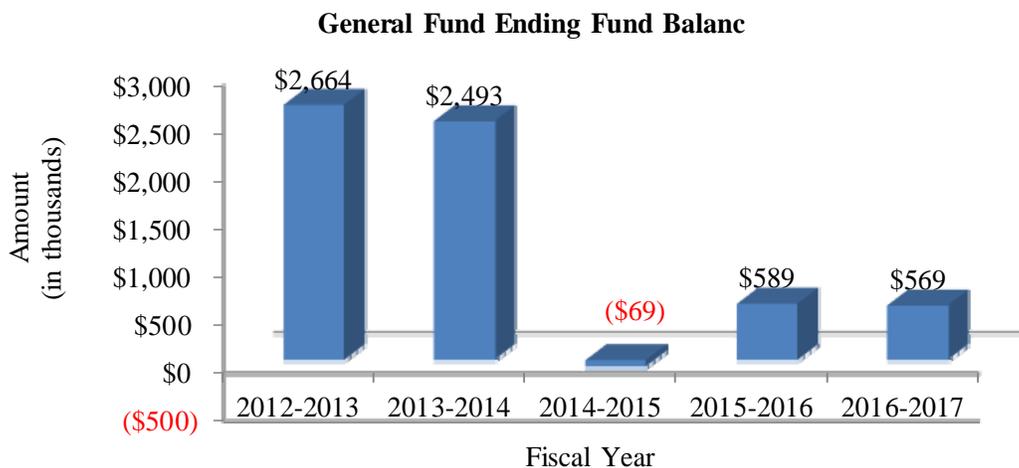
LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

In the General Fund, excluding Special Reserves for other than Capital Outlay Fund, total revenues were \$53.67 million and expenditures including transfer out were \$53.69 million. This resulted in an ending fund balance of \$569,439. Of this amount, \$10,750 is restricted or nonspendable and \$312,086 is unassigned. The District's reserve level is 6.5%. The State requires reserves of 3% of General Fund expenditures and other uses. Available reserves are \$3.5 million which come from our Special Reserve – Other Than Capital Outlay Fund. Although the available reserves exceed the state required minimum, these monies can only fund one-time expenditures and should not be used to support ongoing expenses.

Los Gatos-Saratoga Joint Union High School District



General Fund Budgetary Highlights

Over the course of the year, the District revised the adopted budget with two interims and a final revised budget. Local property taxes bottomed out in 2011-12 and began a slow recovery. The District anticipates a 4.5% increase in property tax income in 2017-2018 (net of RDA funding).

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2017, the District had invested \$164 million in a wide range of capital assets, including school buildings, fields, computer equipment and vehicles. The net book value of total assets increased by \$15 million from the prior year.

Los Gatos-Saratoga Joint Union High School District			
Capital Assets at Year-End			
(in thousands of dollars)			
	2017	2016	Changes
Cost:			
Land	\$ 49	\$ 49	\$ -
Construction in progress	22,808	10,285	12,523
Improvement of sites	11,056	10,938	118
Buildings and improvements	127,044	119,810	7,234
Equipment	2,704	2,515	189
	<u>163,661</u>	<u>143,597</u>	<u>20,064</u>
Accumulated Depreciation:			
Improvement of sites	674	224	450
Buildings and improvements	61,443	56,757	4,686
Equipment	1,776	1,544	232
	<u>63,893</u>	<u>58,525</u>	<u>5,368</u>
Net Book Value:			
Land	49	49	-
Construction in progress	22,808	10,285	12,523
Improvement of sites	10,382	10,714	(332)
Buildings and improvements	65,601	63,053	2,548
Equipment	928	971	(43)
	<u>\$ 99,768</u>	<u>\$ 85,072</u>	<u>\$ 14,696</u>

Net Pension Liability (NPL)

The District implemented the provisions of GASB 68 in 2014-15, which required the District to recognize its proportionate share of the unfunded pension liability. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements in the amount of \$44.4 million.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Long-Term Obligations

This table provides a summary of the changes in long-term obligations for the year ended June 30, 2017. The District's long-term debt has increased by \$47.9 million. This was mainly due to a new \$54 million general obligation bond issuance in the current fiscal year. Refer to Note 9 in the accompanying financial statements for additional information on long-term obligations.

Los Gatos-Saratoga Joint Union High School District			
Outstanding Long-Term Debt at Year-End			
(in thousands of dollars)			
	<u>2017</u>	<u>2016</u>	<u>Changes</u>
Long-Term Debt Outstanding:			
General Obligation Bonds	\$ 114,990	\$ 70,320	\$ 44,670
Unamortized Bond Premium	9,014	5,621	3,393
State School Building Loans	262	345	(83)
Accumulated Vacation	299	258	41
Certificates of Participation	5,495	6,260	(765)
Unamortized COP Premium	133	164	(31)
Other Postemployment Benefits	3,918	3,239	679
	<u>\$ 134,111</u>	<u>\$ 86,207</u>	<u>\$ 47,904</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

In 2014-15, the State eliminated the revenue limit funding formula and implemented the Local Control Funding Formula (LCFF). For the District, this change has minimal or no effect because property taxes exceed the LCFF target and future property tax growth is expected to exceed the growth in the LCFF target for the short and long term.

In 2013 the state enacted the California Public Employees' Pension reform Act (PEPRA) to strengthen both retirement systems: CalPERS and CalSTRS. Along with this reform, school employers were required to contribute and increasing percentage of members' salary into both plans. Rates are projected to increase from 15.531% (CalPERS) and 14.43% (CalSTRS) in 2017-18 to 23.8% (CalPERS) and 19.10% (CalSTRS) in 2020-21. These increases are straining school budgets across California. Los Gatos-Saratoga Union High School District has built these increases into its multi-year projections. Depending on how strong property tax revenue increases are in the future, the district may eventually need to constrain spending in other areas of the budget to accommodate these increased costs

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District is very fortunate to be a basic aid district and tracks assessed valuation growth closely to validate current budget projections and maintain conservative growth projections going forward. This audit is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, please contact the District's Business Officer, Rosemarie Pottage, at 408-402-6325, Los Gatos-Saratoga Joint Union High School District, 17421 Farley Road West, Los Gatos, CA 95030, or rpottage@lgsuhd.org.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 83,608,572
Receivables	1,340,747
Stores inventories	8,291
Capital assets not being depreciated	22,856,535
Capital assets, net of accumulated depreciation	76,911,123
Total Assets	184,725,268
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	8,486,879
Total Deferred Outflows of Resources	8,486,879
LIABILITIES	
Accounts payable	6,119,858
Interest payable	1,414,711
Unearned revenue	243,375
Long-term obligations other than pensions:	
Current portion	10,957,143
Noncurrent portion	123,154,173
Aggregate net pension liability	44,370,038
Total Liabilities	186,259,298
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on refunding	201,391
Deferred inflows of resources related to pensions	2,812,140
Total Deferred Inflows of Resources	3,013,531
NET POSITION	
Net investment in capital assets	26,320,660
Restricted for:	
Debt service	13,911,170
Capital projects	1,278,461
Food services	11,141
Educational programs	246,603
Unrestricted	(37,828,717)
Total Net Position	\$ 3,939,318

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position Governmental Activities</u>
Governmental activities:			
Instruction	\$ 34,832,587	\$ 3,058,508	\$ (31,774,079)
Instruction related activities:			
Supervision of instruction	1,404,415	63,409	(1,341,006)
Instructional library, media and technology	1,033,971	8,654	(1,025,317)
School site administration	3,630,106	107,240	(3,522,866)
Pupil services:			
Home-to-school transportation	1,295,353	21	(1,295,332)
Food services	831,656	-	(831,656)
All other pupil services	3,377,894	107,671	(3,270,223)
General administration:			
Data processing	804,737	-	(804,737)
All other general administration	3,481,745	53,338	(3,428,407)
Plant services	8,147,961	-	(8,147,961)
Ancillary services	1,758,993	38,601	(1,720,392)
Community services	241,799	-	(241,799)
Enterprise services	145,652	-	(145,652)
Interest on long-term obligations	3,086,860	-	(3,086,860)
Other outgo	81,578	2,184,730	2,103,152
Total Governmental-Type Activities	\$ 64,155,307	\$ 5,622,172	(58,533,135)
General revenues:			
Property taxes, levied for general purposes			43,645,190
Property taxes, levied for debt service			11,798,147
Taxes levied for other specific purposes			2,785,698
Federal and State aid not restricted for specific purpose			2,150,036
Interest and investment earnings			660,955
Miscellaneous			658,252
Subtotal, General Revenues			61,698,278
Change in Net Position			3,165,143
Net Position - Beginning			774,175
Net Position - Ending			\$ 3,939,318

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

This page left blank intentionally.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2017

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 4,786,601	\$ 60,767,497	\$ 14,796,121
Receivables	1,032,851	171,010	29,995
Due from other funds	-	543,704	-
Stores inventories	-	-	-
Total Assets	\$ 5,819,452	\$ 61,482,211	\$ 14,826,116
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	1,278,189	4,834,187	-
Due to other funds	543,848	-	-
Unearned revenue	243,375	-	-
Total Liabilities	2,065,412	4,834,187	-
 Fund balances:			
Nonspendable	10,750	-	-
Restricted	246,603	56,648,024	14,826,116
Committed	-	-	-
Assigned	-	-	-
Unassigned	3,496,687	-	-
Total Fund Balances	3,754,040	56,648,024	14,826,116
Total Liabilities and Fund Balances	\$ 5,819,452	\$ 61,482,211	\$ 14,826,116

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 3,258,353	\$ 83,608,572
106,891	1,340,747
144	543,848
8,291	8,291
<u>\$ 3,373,679</u>	<u>\$ 85,501,458</u>

7,482	6,119,858
-	543,848
-	243,375
<u>7,482</u>	<u>6,907,081</u>

11,141	21,891
1,778,226	73,498,969
1,570,046	1,570,046
6,784	6,784
-	3,496,687
<u>3,366,197</u>	<u>78,594,377</u>
<u>\$ 3,373,679</u>	<u>\$ 85,501,458</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds **\$ 78,594,377**

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

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 163,660,551	
Accumulated depreciation is	<u>(63,892,893)</u>	
Net Capital Assets		99,767,658

In governmental funds, interest on long-term obligations is recognized in
the period when it is paid. On the government-wide statements,
interest on long-term obligations is recognized as it accrues. (1,414,711)

Long-term liabilities are not recognized on the governmental funds but
are recorded on the statement of net position:

Bonds payable	(124,004,574)	
COPs payable	(5,627,080)	
OPEB obligations	(3,918,242)	
State school building loan	(261,977)	
Compensated absences (vacations)	(299,443)	
Net pension liability and related deferrals	(38,695,299)	
Deferrals related to refunding	<u>(201,391)</u>	
Total Long-Term Obligations		(173,008,006)

Total Net Position - Governmental Activities **\$ 3,939,318**

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

This page left blank intentionally.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local control funding formula	\$ 44,439,739	\$ -	\$ -
Federal sources	882,291	-	-
Other state sources	3,881,311	-	40,646
Other local sources	4,497,354	547,506	11,849,419
Total Revenues	53,700,695	547,506	11,890,065
EXPENDITURES			
Current			
Instruction	30,679,036	-	-
Instruction related activities:			
Supervision of instruction	1,236,948	-	-
Instructional library, media and technology	910,677	-	-
School site administration	3,197,240	-	-
Pupil Services:			
Home-to school transportation	1,140,891	-	-
Food services	13,843	-	-
All other pupil services	2,975,102	-	-
General administration:			
Data processing	718,148	-	-
All other general administration	3,030,131	-	-
Plant services	5,727,044	-	-
Ancillary services	1,549,245	-	-
Community services	212,966	-	-
Other outgo	81,578	-	-
Enterprise services	128,284	-	-
Facility acquisition and construction	536,907	20,861,896	-
Debt service			
Principal	-	-	9,330,000
Interest and other	45,893	195,777	3,356,999
Total Expenditures	52,183,933	21,057,673	12,686,999
Excess (Deficiency) of Revenues Over Expenditures	1,516,762	(20,510,167)	(796,934)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Other sources	-	54,000,000	4,486,259
Transfers out	(1,506,764)	-	-
Net Financing Sources (Uses)	(1,506,764)	54,000,000	4,486,259
NET CHANGE IN FUND BALANCES	9,998	33,489,833	3,689,325
Fund Balances - Beginning	3,744,042	23,158,191	11,136,791
Fund Balances - Ending	\$ 3,754,040	\$ 56,648,024	\$ 14,826,116

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 44,439,739
-	882,291
-	3,921,957
917,549	17,811,828
<u>917,549</u>	<u>67,055,815</u>
-	30,679,036
-	1,236,948
-	910,677
-	3,197,240
-	1,140,891
791,255	805,098
-	2,975,102
-	718,148
-	3,030,131
130,660	5,857,704
-	1,549,245
-	212,966
-	81,578
-	128,284
261,800	21,660,603
848,406	10,178,406
268,545	3,867,214
<u>2,300,666</u>	<u>88,229,271</u>
<u>(1,383,117)</u>	<u>(21,173,456)</u>
1,506,764	1,506,764
-	58,486,259
-	(1,506,764)
<u>1,506,764</u>	<u>58,486,259</u>
123,647	37,312,803
3,242,550	41,281,574
<u>\$ 3,366,197</u>	<u>\$ 78,594,377</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ 37,312,803**

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, the costs are capitalized for the government-wide statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

This is the amount by which capital outlay exceeds depreciation in the period.

Capital outlays	\$ 20,063,011	
Depreciation expense	<u>(5,367,855)</u>	14,695,156

In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year.

In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (the amounts actually paid). Vacation amounts earned were more than the amounts used.

(41,373)

Proceeds received from the issuance of General Obligation Bonds including a premium of \$4,486,259 is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net position and does not affect the statement of activities.

(58,486,259)

Repayment of state loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

83,406

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

9,330,000

Repayment of certificates of participation is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

765,000

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2017

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.	(594,468)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest expense reported in the governmental funds statements is the net result of these two factors.	(560,042)
Amortization of premium is not recorded in the governmental funds, but they impact the statement of activities.	1,124,842
Amortization of gain or loss on refunding is not recorded in the governmental funds, but is amortized over the life of the bond in the statement of activities.	215,554
Contributions to the retiree benefits fund are recorded as expenditures in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the statement of activities as an expense. The actual amount of the contribution was less than the annual required contribution.	(679,476)
Change in Net Position of Governmental Activities	<u><u>\$ 3,165,143</u></u>

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2017

	<u>Scholarship Trust</u>	<u>Agency Fund</u>
ASSETS		
Deposits and investments	\$ 418,193	\$ 1,425,035
Receivables	1,149	-
Total Assets	<u>419,342</u>	<u>\$ 1,425,035</u>
LIABILITIES		
Due to student groups	-	\$ 1,425,035
Total Liabilities	<u>-</u>	<u>\$ 1,425,035</u>
NET POSITION		
Restricted for scholarships	419,342	
Total Net Position	<u>\$ 419,342</u>	

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	Scholarship Trust
ADDITIONS	
Private donations	\$ 19,002
Interest	4,016
Total Additions	<u>23,018</u>
 CHANGE IN NET POSITION	 23,018
Net Position - Beginning	<u>396,324</u>
Net Position - Ending	<u>\$ 419,342</u>

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Los Gatos-Saratoga Joint Union High School District (District) was organized 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 nine through twelve as mandated by the State of California. The District operates two high schools and one alternative program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Los Gatos-Saratoga Joint Union High School District, this includes general operations and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the Board of Trustees of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Los Gatos-Saratoga Joint Union High School District Financing Corporation's financial activity is presented in the financial statements as the COP Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Los Gatos-Saratoga Union High School District Financing Corporation.

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 two broad fund categories: governmental and fiduciary.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Governmental Funds

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for 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 fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

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 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).

Retiree Benefits Fund The Retiree Benefits Fund exists to account separately for funds committed for employees' retirement benefit payments. While the funds are committed by the governing board to pay for retiree benefits, the board has the ability to use these funds for general fund purposes.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

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.

COP Debt Service Fund - The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

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.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB). Trust funds are used to account for the assets held by the District under a trust agreement for scholarships.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Net position should be reported as restricted when constraints placed on net position 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.

Fund Financial Statements

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

Governmental Funds - All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current position and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the differences between the government-wide statements and the statements for the governmental funds.

Fiduciary Funds - Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within ninety days of fiscal year-end. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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 combined balance sheet and revenue is recognized.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on general long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Deposits

The District's cash is 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.

Investments

Investments held at June 30, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County are determined by the program sponsor.

Prepaid Items

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when purchased.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type 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. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and are capitalized in the government-wide financial statements. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated acquisition cost on the date donated.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Depreciation is computed by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years. Depreciation expense is allocated in the statement of activities based on expenditures by function.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a current liability on the government-wide statement of net position. For governmental funds, the liability is disclosed in the general long-term debt account group and is not accrued as a liability in any governmental fund.

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 certificated and classified 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 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 expenditures of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 current year pension activities.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related 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, and the chief business officer may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 4 percent of General Fund expenditures and other financing uses.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Net Position

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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. Interfund transfers are eliminated in the governmental columns of the statement of activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the Board of Trustees to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District Board of Trustees 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.

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.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

New Accounting Pronouncements Effective This Fiscal Year

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. Please refer to Note 16 for more details.

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

The 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 Effective in Future Fiscal Years

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The District has not determined the effect of the statement.

GASB Statement No 81 - 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. The District has not determined the effect of the statement.

GASB Statement No. 83 – In November 2016, 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 asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The District has not determined the effect of the statement.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

GASB Statement No. 84 – In January 2017, 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 85 – In March 2017, 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). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 86 – In May 2017, 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 Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 87 – In June 2017, 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. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The District has not determined the effect of the statement.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 activities	\$ 83,608,572
Fiduciary funds	1,843,228
Total Deposits and Investments	<u>\$ 85,451,800</u>

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

Cash on hand and in banks	\$ 1,435,035
Cash in revolving	13,600
Investments	84,003,165
Total Deposits and Investments	<u>\$ 85,451,800</u>

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

LOS GATOS-SARATOGA JOINT UNION HIGH 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 manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool.

The District monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. Information about the maturity of the District's portfolio is presented in the following schedule:

Investment Type	Cost	Fair Value	Maturity
Money Market Mutual Funds	\$ 499,765	\$ 499,765	Not Applicable
County Pool	83,503,400	83,309,988	528 days
Total	<u>\$ 84,003,165</u>	<u>\$ 83,809,753</u>	

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 measure by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Rating as of Year End	
		AAA	Unrated
Money Market Mutual Funds	\$ 499,765	\$ 499,765	\$ -
County Pool	83,503,400	-	83,503,400
Total	<u>\$ 84,003,165</u>	<u>\$ 499,765</u>	<u>\$ 83,503,400</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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2017, the District's was exposed to \$ 1,112,551 of custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably 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.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Uncategorized - Investments in the County Treasury Investment Pool and money market mutual funds 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 invests its entire fund in either Santa Clara County Treasury or money market.

NOTE 4 - RECEIVABLES AND DUE FROM OTHER GOVERNMENTS

Receivables and due from other governments at June 30, 2017, consist of the following:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Fiduciary Funds
Federal Government						
Categorical aid	\$ 184,240	\$ -	\$ -	\$ -	\$ 184,240	\$ -
State Government						
Categorical aid	147,629	-	-	-	147,629	-
Lottery	302,155	-	-	-	302,155	-
Local Government	-					
Interest	27,122	171,010	29,995	5,016	233,143	1,149
Other local	371,705	-	-	101,875	473,580	-
Total	<u>\$ 1,032,851</u>	<u>\$ 171,010</u>	<u>\$ 29,995</u>	<u>\$ 106,891</u>	<u>\$ 1,340,747</u>	<u>\$ 1,149</u>

All receivables are considered collectible in full.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 48,953	\$ -	\$ -	\$ 48,953
Construction in progress	10,284,907	15,416,725	2,894,050	22,807,582
Total Capital Assets Not Being Depreciated	<u>10,333,860</u>	<u>15,416,725</u>	<u>2,894,050</u>	<u>22,856,535</u>
Capital Assets Being Depreciated:				
Land improvements	10,938,346	117,409	-	11,055,755
Buildings and improvements	119,810,044	7,233,997	-	127,044,041
Furniture and equipment	2,515,290	188,930	-	2,704,220
Total Capital Assets Being Depreciated	<u>133,263,680</u>	<u>7,540,336</u>	<u>-</u>	<u>140,804,016</u>
Total Capital Assets	<u>143,597,540</u>	<u>22,957,061</u>	<u>2,894,050</u>	<u>163,660,551</u>
Less Accumulated Depreciation:				
Land improvements	224,481	449,456	-	673,937
Buildings and improvements	56,756,774	4,686,671	-	61,443,445
Furniture and equipment	1,543,783	231,728	-	1,775,511
Total Accumulated Depreciation	<u>58,525,038</u>	<u>5,367,855</u>	<u>-</u>	<u>63,892,893</u>
Governmental Activities Capital Assets, Net	<u>\$ 85,072,502</u>	<u>\$ 17,589,206</u>	<u>\$ 2,894,050</u>	<u>\$ 99,767,658</u>

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

Governmental Activities	
Instruction	\$ 3,196,470
Supervision of instruction	128,878
Instructional library, media, and technology	94,884
School site administration	333,122
Home-to-school transportation	118,870
Food services	1,442
All other pupil services	309,978
Enterprise activities	13,366
All other general administration	315,711
Data processing	74,824
Plant maintenance and operations	596,704
Ancillary services	161,417
Community services	22,189
Total Depreciation Expenses Governmental Activities	<u>\$ 5,367,855</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due to/Due from)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund Receivables/Payables (Due to/Due from) for the year ended June 30, 2017, consisted of the following:

Due To	Due From		
	Building Fund	Non-Major	Total
General Fund	\$ 543,704	\$ 144	\$ 543,848

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

The General Fund contributed money to the Cafeteria Fund to meet the expenditure requirements of the food service program.	\$ 221,764
The General Fund contributed money to the Deferred Maintenance Fund to meet the expenditure requirements of the Deferred Maintenance Fund.	175,000
The General Fund contributed to the Special Reserve Capital Fund to covers a portion of certificate of participation payment and establishes a reserve for future capital refurbishment and acquisition.	1,110,000
Total	\$ 1,506,764

NOTE 7 - DEFERRED AMOUNTS ON REFUNDING

Deferred inflows of resources are an acquisition of net position by the District that is applicable to a future reporting period. For governmental activities, the negative net investment in capital assets amount of \$30,327,364 includes the effect of deferring the recognition of gain of \$201,391 from advance refunding. The gain will be recognized as revenue and as an increase in net position over the remaining life of related bonds.

The changes in the District's deferred gain (loss) on refunding during the year are as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Deferred gain on bond refunding	\$ 466,438	\$ -	\$ 223,668	\$ 242,770
Deferred charge on COP refunding	(49,493)	-	(8,114)	(41,379)
Total	\$ 416,945	\$ -	\$ 215,554	\$ 201,391

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 8 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,260,812	\$ 4,834,187	\$ 7,482	\$ 6,102,481
State apportionment	8,541	-	-	8,541
Salaries and benefits	8,836	-	-	8,836
Total	<u>\$ 1,278,189</u>	<u>\$ 4,834,187</u>	<u>\$ 7,482</u>	<u>\$ 6,119,858</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2016	Acretion / Additions	Deductions	Balance June 30, 2017	Due in One Year
GOB	\$ 70,320,000	\$ 54,000,000	\$ 9,330,000	\$ 114,990,000	\$ 9,145,000
GOB premiums	5,621,709	4,486,259	1,093,394	9,014,574	898,418
COP	6,260,000	-	765,000	5,495,000	795,000
COP premiums	163,528	-	31,448	132,080	31,448
Accumulated vacation	258,070	91,660	50,287	299,443	-
Postemployment benefits	3,238,766	679,476	-	3,918,242	-
OPSC loan	345,383	-	83,406	261,977	87,277
Total	<u>\$ 86,207,456</u>	<u>\$ 59,257,395</u>	<u>\$ 11,353,535</u>	<u>\$ 134,111,316</u>	<u>\$ 10,957,143</u>

Payments on the general obligation bonds (GOB) are made by the Bond Interest and Redemption Fund from a separate property tax override and, thus, do not require the use of general revenues. Payments for the Certificates of Participation (COP) are made from the Special Reserve for Capital Outlay Fund and Capital Facilities Fund. Office of Public Schools Constructions (OPSC) loan will be paid from Capital Facilities Fund. The accrued vacation and other postemployment benefits will be paid by the fund for which the employee worked.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2017
2012	2023	2.00-3.00%	\$ 9,785,000	\$ 7,250,000	\$ -	\$ 765,000	\$ 6,485,000
2014	2044	2.00-5.00%	45,000,000	41,710,000	-	3,185,000	38,525,000
2014	2019	2.00-4.00%	27,185,000	21,360,000	-	5,380,000	15,980,000
2016	2036	2.00-4.00%	54,000,000	-	54,000,000	-	54,000,000
				<u>\$ 70,320,000</u>	<u>\$ 54,000,000</u>	<u>\$ 9,330,000</u>	<u>\$ 114,990,000</u>

Bond Debt Service Requirements to Maturity

The bonds mature through 2044 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 9,145,000	\$ 3,892,681	\$ 13,037,681
2019	10,085,000	3,702,900	13,787,900
2020	6,830,000	3,412,500	10,242,500
2021	2,345,000	3,268,600	5,613,600
2022	2,555,000	3,205,425	5,760,425
2023-2027	13,340,000	14,734,225	28,074,225
2028-2032	18,715,000	11,976,000	30,691,000
2033-2037	28,885,000	7,392,525	36,277,525
2038-2042	12,680,000	3,433,600	16,113,600
2043-2044	10,410,000	645,600	11,055,600
Total	<u>\$ 114,990,000</u>	<u>\$ 55,664,056</u>	<u>\$ 170,654,056</u>

Office of Public Schools Construction Loan

In May 2008, the Los Gatos-Saratoga Joint Union High School District Financing Corporation issued a note payable to the Office of Public Schools Construction in the amount of \$761,916 with interest rates set at 4.161% to be repaid over ten years commencing in 2012.

The outstanding Office of Public Schools Construction loan is as follows:

Year Disbursed	Interest Rate	Original Issue	Balance July 1, 2016	Interest Charge	Repayment and State Credit Current Year	Outstanding June 30, 2017
2008	4.161%	\$ 761,916	\$ 345,383	\$ -	\$ 83,406	\$ 261,977

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

OPSC Construction Loan Debt Service Requirements to Maturity

The bonds mature through 2044 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2018	\$ 83,791	\$ 10,901	\$ 94,692
2019	87,277	7,414	94,691
2020	90,909	3,783	94,692
Total	<u>\$ 261,977</u>	<u>\$ 22,098</u>	<u>\$ 284,075</u>

Certificates of Participation

On August 1, 2008, the District issued two certificates of participation (COP) totaling \$7,070,000. These certificates of participation were issued to finance the cost of a high school technology project, school sports facilities improvements, and construction of administrative and commercial office space. The first COP, totaling \$4,770,000 matures on November 1, 2023 and yields interest between 4.0 and 5.0 percent. Interest on this COP is first payable on May 1, 2009 and semiannually thereafter on May 1st and November 1st of each year. Principal payments are first due November 1, 2014 and every November 1st thereafter. The second COP, totaling \$2,300,000 matured on November 1, 2014 and yielded interest between 4.6 and 5.375 percent. As of June 30, 2017, the principal outstanding for the COP was \$3,815,000.

On October 18, 2012, the District issued refunding certificates of participation in the amount of \$2,845,000 with interest ranging from 2.0 to 5.0 percent to refund \$2,950,000 of outstanding 2001 certificates of participation. As of June 30, 2017 the principal outstanding was \$1,680,000.

The certificates mature through 2024 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 795,000	\$ 225,038	\$ 1,020,038
2019	820,000	193,613	1,013,613
2020	855,000	158,488	1,013,488
2021	890,000	124,197	1,014,197
2022	930,000	83,594	1,013,594
2023-2024	1,205,000	54,191	1,259,191
Total	<u>\$ 5,495,000</u>	<u>\$ 839,119</u>	<u>\$ 6,334,119</u>

Accumulated Vacation

The long-term portion of accumulated vacation for the District at June 30, 2017 amounted to \$299,443.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 10,750	\$ -	\$ -	\$ 2,850	\$ 13,600
Stores inventories	-	-	-	8,291	8,291
Total Nonspendable	<u>10,750</u>	<u>-</u>	<u>-</u>	<u>11,141</u>	<u>21,891</u>
Restricted					
Legally restricted programs	246,603	-	-	-	246,603
Capital projects	-	56,648,024	-	1,278,461	57,926,485
Debt services	-	-	14,826,116	499,765	15,325,881
Total Restricted	<u>246,603</u>	<u>56,648,024</u>	<u>14,826,116</u>	<u>1,778,226</u>	<u>73,498,969</u>
Committed					
OPEB	-	-	-	1,570,046	1,570,046
Assigned					
Capital Projects	-	-	-	6,784	6,784
Unassigned					
Reserve for economic uncertainties	3,496,687	-	-	-	3,496,687
Total Fund Balance	<u>\$ 3,754,040</u>	<u>\$ 56,648,024</u>	<u>\$ 14,826,116</u>	<u>\$ 3,366,197</u>	<u>\$ 78,594,377</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Los Gatos Saratoga Joint Union High School District. The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 38 retirees and beneficiaries currently receiving benefits, and 271 active plan members as of most recent actuarial evaluation performed. The District offers retiree health care benefits at District expense as follows:

Certificated Employees:					Annual Premium Increases 10% or Less		Annual Premium Increases more than 10%	
Hire Date	Retirement Age	Years of Full Time Service	Plan Pays	Retiree Pays	Plan Pick up	Retiree Pick up	Plan Pick up	Retiree Pick up
Prior to July 2006	55	10	75%	25%	Half	Half	5% increase	Remainder
	56	10	80%	20%	Half	Half	5% increase	Remainder
	57	10	85%	15%	Half	Half	5% increase	Remainder
	58	10	90%	10%	Half	Half	5% increase	Remainder
	69	10	95%	5%	Half	Half	5% increase	Remainder
	60-64	10	100%	0%	Half	Half	5% increase	Remainder
July 2006 or after	58	20	90%	10%	Half	Half	5% increase	Remainder
	59	20	95%	5%	Half	Half	5% increase	Remainder
	60-64	20	100%	0%	Half	Half	5% increase	Remainder

Classified and Management:					Annual Premium Increases 10% or Less		Annual Premium Increases more than 10%	
Hire Date	Retirement Age	Years of Full Time Service	Plan Pays	Retiree Pays	Plan Pick up	Retiree Pick up	Plan Pick up	Retiree Pick up
	55	10	75%	25%	Half	Half	5% increase	Remainder
	56	10	80%	20%	Half	Half	5% increase	Remainder
	57	10	85%	15%	Half	Half	5% increase	Remainder
	58	10	90%	10%	Half	Half	5% increase	Remainder
	69	10	95%	5%	Half	Half	5% increase	Remainder
	60-64	10	100%	0%	Half	Half	5% increase	Remainder

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the represented and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-2017, the District contributed \$128,285 to the plan, all of which was used for current premiums (100 percent of total premiums).

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	\$ 662,017
Interest on Net OPEB Obligation	145,744
Annual OPEB Cost	<u>807,761</u>
Contributions made	<u>(128,285)</u>
Increase in net OPEB obligation	679,476
Net OPEB obligation, beginning of year	3,238,766
Net OPEB obligation, end of year	<u><u>\$ 3,918,242</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contribution to the Plan, and net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2017	\$ 807,761	\$ 128,285	15.88%	\$ 3,918,242

Funded Status and Funding Progress

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Liability (AAL) - Entry age normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/1/2016	\$ -	\$ 4,321,117	\$ 4,321,117	0.00%	\$ 29,087,368	14.86%
9/1/2014	-	3,863,262	3,863,262	0.00%	28,331,598	13.64%
2/1/2012	-	4,561,630	4,561,630	0.00%	23,872,789	19.11%

Actuarial Methods and Assumptions

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

In the September 1, 2016 actuarial valuation, the Entry Age Normal method was used. The actuarial assumptions included a four and a half percent investment rate of return (net of administrative expenses). Healthcare cost trend rates were estimated at an average of four percent. The UAAL is being amortized at a level percentage of payroll method on an open basis. The remaining amortization period as of September 1, 2016 is 21 years.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District participated in the South Bay Area Schools' Insurance Authority (SBASIA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation

For fiscal year 2017, the District participated in the Santa Clara County Schools' Insurance Group (SCCSIG) and South Bay Area Schools' Insurance Authority (SBASIA), insurance purchasing pools. The intent of the SCCSIG and SBASIA are to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SCCSIG and SBASIA. 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 SCCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings for both agencies are then calculated and each participant's individual performance is compared to the overall savings. 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 agencies. Participation in the agencies is limited to districts that can meet their selection criteria.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Coverage for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Santa Clara County School Insurance Group	Workers' Compensation	Statutory
	Liability (includes General liability, Auto liability and Errors & omissions)	\$ 55,000,000
South Bay Area School's Insurance Authority	Property	\$ 1,000,000,000
	Crime	\$ 3,000,000

NOTE 13 - 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).

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 33,909,258	\$ 5,523,353	\$ 2,068,658	\$ 3,121,655
CalPERS	10,460,780	2,963,526	743,482	1,190,832
Total	<u>\$ 44,370,038</u>	<u>\$ 8,486,879</u>	<u>\$ 2,812,140</u>	<u>\$ 4,312,487</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:

<http://www.calstrs.com/member-publications>.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Benefits Provided

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

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

The District makes contributions for certificated staff exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRS Defined Benefit Program	
	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%	9.20%
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 \$2,827,584.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	\$	33,909,258
State's proportionate share of the net pension liability associated with the District		19,303,936
Total	\$	<u>53,213,194</u>

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 0.0419 percent and 0.0434 percent, resulting in a net decrease in the proportionate share of 0.0015 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$3,121,655. In addition, the District recognized pension expense and revenue of \$1,865,929 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	\$ 2,827,584	\$ -
Net differences between projected and actual earnings on plan investments	2,695,769	-
Differences between expected and actual experience	-	827,178
Adjustment due to differences in proportionate share	-	1,241,480
Total	<u>\$ 5,523,353</u>	<u>\$ 2,068,658</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows (inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period. Moreover, the deferred outflows (inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability are amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

All above deferred amounts, except contribution, will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$ 58,812	\$ (368,073)
2019	58,813	(368,073)
2020	1,567,061	(368,073)
2021	1,011,083	(368,073)
2022	-	(368,076)
Thereafter	-	(228,290)
Total	<u>\$ 2,695,769</u>	<u>\$ (2,068,658)</u>

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's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teacher's Retirement Board of the California State Teacher's Retirement System (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:

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 48,803,070
Current discount rate (7.60%)	\$ 33,909,258
1% increase (8.60%)	\$ 21,539,743

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(s) 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>.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a 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%

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 are calculated 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 \$890,435.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 \$10,460,780. 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 0.0530 percent and 0.0562 percent, resulting in a net decrease in the proportionate share of 0.0032 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$1,190,832. 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	\$ 890,435	\$ -
Net differences between projected and actual earnings on plan investments	1,623,177	-
Differences between expected and actual experience	449,914	-
Adjustment due to differences in proportionate share	-	429,198
Adjustment due to changes in assumptions	-	314,284
Total	<u>\$ 2,963,526</u>	<u>\$ 743,482</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows (inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period. Moreover, the deferred outflows (inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability are amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years. All above deferred amounts, except contributions, will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$ 227,672	\$ (116,508)
2019	227,673	(112,076)
2020	744,198	(64,984)
2021	423,634	-
Total	<u>\$ 1,623,177</u>	<u>\$ (293,568)</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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.

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	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%

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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%)	\$ 15,607,542
Current discount rate (7.65%)	\$ 10,460,780
1% increase (8.65%)	\$ 6,175,088

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,601,294, \$1,378,041 and \$1,041,281, for 2016-17, 2015-16 and 2014-15, respectively (8.578 percent, 7.12589 percent and 5.679 percent of 2016-17, 2015-16 and 2014-15 annual payroll, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition 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 approximately \$23 million commitments with respect to the unfinished capital projects.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the South Bay Area Schools' Insurance Authority and the Santa Clara County Schools' Insurance Group joint powers authorities JPA's. The District pays an annual premium to the applicable risk pool for its health, workers' compensation, and property liability coverage. 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 available from the respective entities.

During the year ended June 30, 2017, the District made the following payments:

South Bay Area Schools' Insurance Authority	\$ 187,884
Santa Clara County Schools' Insurance Group	386,712
	<u>\$ 574,596</u>

NOTE 16 - TAX ABATEMENTS

As of June 30, 2017, the County of Santa Clara provides a tax abatement program through California Land Conservation Act of 1965, commonly referred to as the Williamson Act.

The Williamson Act affects taxing entity's share of the 1% ad valorem tax (property tax). The Williamson Act enables the County to enter into agreement with private landowners for restricting specific parcels of land to agricultural or related open space use for a ten year period. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value.

As a result of the Williamson Act, Los Gatos-Saratoga Joint Union High School District's property tax revenues were reduced by \$46,774.93 for the year ended June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (Non GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Local control funding formula	\$ 43,183,663	\$ 44,326,050	\$ 44,439,739	\$ 113,689
Federal sources	892,716	819,265	882,291	63,026
Other state sources	2,086,969	3,967,475	3,881,311	(86,164)
Other local sources	3,351,000	4,007,064	4,467,659	460,595
Total Revenues	49,514,348	53,119,854	53,671,000	551,146
EXPENDITURES				
Current				
Certificated salaries	22,149,033	22,663,076	22,580,229	82,847
Classified salaries	7,504,361	7,121,082	7,344,136	(223,054)
Employee benefits	10,724,387	12,569,074	12,140,697	428,377
Books and supplies	1,294,118	2,198,872	2,325,978	(127,106)
Services and operating expenditures	6,104,829	7,105,076	7,442,741	(337,665)
Other outgo	228,500	128,507	81,578	46,929
Capital outlay	12,000	111,798	222,681	(110,883)
Debt service - interest	60,000	65,000	45,893	19,107
Total Expenditures	48,077,228	51,962,485	52,183,933	(221,448)
Excess (Deficiency) of Revenues Over Expenditures	1,437,120	1,157,369	1,487,067	329,698
Other Financing Sources (Uses):				
Transfers out	(1,485,000)	(1,485,000)	(1,506,764)	(21,764)
Net Financing Sources (Uses)	(1,485,000)	(1,485,000)	(1,506,764)	(21,764)
NET CHANGE IN FUND BALANCES	(47,880)	(327,631)	(19,697)	307,934
Fund Balance - Beginning	589,136	589,136	589,136	-
Fund Balance - Ending	\$ 541,256	\$ 261,505	569,439	\$ 307,934
Special Reserve for other than Capital Outlay Fund			3,184,601	
Fund Balance - Ending, GAAP Basis			\$ 3,754,040	

See accompanying note to required supplementary information.

**LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Liability (AAL) - Entry age normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/1/2016	\$ -	\$ 4,321,117	\$ 4,321,117	0.00%	\$ 29,087,368	14.86%
9/1/2014	-	3,863,262	3,863,262	0.00%	28,331,598	13.64%
2/1/2012	-	4,561,630	4,561,630	0.00%	23,872,789	19.11%

See accompanying note to required supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

MEASUREMENT DATE, JUNE 30,	2016	2015	2014
CalSTRS			
District's proportion of the net pension liability	0.0419%	0.0434%	0.0440%
District's proportionate share of the net pension liability	\$ 33,909,258	\$ 29,219,390	\$ 25,705,965
State's proportionate share of the net pension liability associated with the District	19,303,936	15,453,836	15,522,372
Total	<u>\$ 53,213,194</u>	<u>\$ 44,673,226</u>	<u>\$ 41,228,337</u>
District's covered payroll	<u>\$ 21,401,597</u>	<u>\$ 18,666,913</u>	<u>\$ 19,338,506</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>158%</u>	<u>157%</u>	<u>133%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
 CalPERS			
District's proportion of the net pension liability	0.0530%	0.05620%	0.05700%
District's proportionate share of the net pension liability	\$ 10,460,780	\$ 8,282,421	\$ 6,473,959
District's covered - payroll	<u>\$ 6,382,996</u>	<u>\$ 6,400,065</u>	<u>\$ 5,935,341</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>164%</u>	<u>129%</u>	<u>109%</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.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

FISCAL YEAR ENDED, JUNE 30,	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 2,827,584	\$ 2,296,092	\$ 1,836,512
Contributions in relation to the contractually required contribution	<u>2,827,584</u>	<u>2,296,092</u>	<u>1,836,512</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 <u>\$ 22,478,616</u>	 <u>\$ 21,401,597</u>	 <u>\$ 18,666,913</u>
 Contributions as a percentage of covered payroll	 <u>13%</u>	 <u>11%</u>	 <u>10%</u>
 CalPERS			
Contractually required contribution	\$ 890,435	\$ 756,193	\$ 732,295
Contributions in relation to the contractually required contribution	<u>890,435</u>	<u>756,193</u>	<u>732,295</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 <u>\$ 6,411,543</u>	 <u>\$ 6,382,996</u>	 <u>\$ 6,400,065</u>
 Contributions as a percentage of covered payroll	 <u>14%</u>	 <u>12%</u>	 <u>11%</u>

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

See accompanying note to required supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

At June 30, 2017, the District's General Fund actual expenditures and other uses exceeded its budgeted amount by \$366,859.

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 were no changes in economic assumptions for CalSTRS from the previous valuations. CalPERS discount rate was changed from 7.50% to 7.65% in 2016.

Schedule of District Pension Contributions

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

SUPPLEMENTARY INFORMATION

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I - Basic	84.010	14981	\$ 67,630
Special Education Cluster			
Basic Local Assistance	84.027	13379	531,785
Mental Health Allocation	84.027A	14468	<u>220,929</u>
Total Special Education Cluster			<u>752,714</u>
Technology II C, Section 131	84.048	14894	28,378
Title II Teacher Quality	84.367	14341	<u>33,569</u>
Total Expenditures of Federal Awards			<u><u>\$ 882,291</u></u>

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2017

ORGANIZATION

The Los Gatos-Saratoga Joint Union High School District (the District) was organized 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 nine through twelve as mandated by the State of California. The District operates two high school and one alternative education program.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Doug Ramezane	Member	2018
Cynthia Chang	Member	2018
Rosemary Rossi	President	2020
Katherine Tseng	Clerk	2020
Robin Mano	Vice President	2018

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Bob Mistele	Superintendent/ Board Secretary
Greg Medici	Chief Business Officer

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	<u>Second Period Report</u>	<u>Annual Report</u>
SECONDARY		
Regular classes - ninth through twelfth	3,211.53	3,203.31
Special education - nonpublic	7.50	7.08
Extended year special education - nonpublic	1.22	1.22
Total Secondary	<u><u>3,220.25</u></u>	<u><u>3,211.61</u></u>

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	64,800	66,100	180	Complied
Grade 10	64,800	66,100	180	Complied
Grade 11	64,800	66,100	180	Complied
Grade 12	64,800	66,100	180	Complied

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	General Fund	Special Reserve Other Fund	Building Fund	COP Debt Service Fund
Balances, June 30 2017, Unaudited Actual	\$ 569,439	\$ 3,184,601	\$ 60,730,505	\$ -
Special Reserves Other Fund is consolidated into the General Fund	3,184,601	(3,184,601)	-	-
Increase vendor payable	-	-	(4,082,481)	-
Record Building Corporations investment	-	-	-	499,765
Balances, June 30 2017, Audited Financial Statement	<u>\$ 3,754,040</u>	<u>\$ -</u>	<u>\$ 56,648,024</u>	<u>\$ 499,765</u>

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	(Budget) 2018 ¹	2017	2016	2015
GENERAL FUND				
Revenues	\$ 53,920,341	\$ 53,700,695	\$ 51,995,305	\$ 46,380,599
Other sources and transfer in	-	-	-	60,631
Total Revenues and Other Sources	53,920,341	53,700,695	51,995,305	46,441,230
Expenditures	52,511,388	52,183,933	49,885,408	47,441,948
Other uses and transfers out	1,485,000	1,506,764	1,429,969	1,321,755
Total Expenditures and Other Uses	53,996,388	53,690,697	51,315,377	48,763,703
INCREASE (DECREASE)				
IN FUND BALANCE	\$ (76,047)	\$ 9,998	\$ 679,928	\$ (2,322,473)
ENDING FUND BALANCE	\$ 3,677,993	\$ 3,754,040	\$ 3,744,042	\$ 3,064,114
AVAILABLE RESERVES²	\$ 3,531,389	\$ 3,496,687	\$ 3,154,906	\$ 2,923,603
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	6.5%	6.5%	6.1%	6.0%
LONG-TERM OBLIGATIONS	\$ 167,524,211	\$ 178,481,354	\$ 123,709,267	\$ 128,189,085
AVERAGE DAILY ATTENDANCE AT P-2	3,226	3,220	3,149	3,168

The General Fund balance has increased by \$689,926 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$76,047. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District's reserves exceed this standard.

Total long-term obligations have increased by \$50,292,269 over the past two years. Average daily attendance has increased by 52 ADA over the past two years.

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

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

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 2,850	\$ 360,546	\$ 856,353
Receivables	88	464	101,875
Due from other funds	144	-	-
Stores inventories	8,291	-	-
Total assets	\$ 11,373	\$ 361,010	\$ 958,228
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 232	\$ 7,250	\$ -
Total liabilities	232	7,250	-
Fund Balances:			
Nonspendable	11,141	-	-
Restricted	-	-	958,228
Committed	-	353,760	-
Assigned	-	-	-
Total fund balances	11,141	353,760	958,228
Total Liabilities and Fund Balances	\$ 11,373	\$ 361,010	\$ 958,228

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	COP Debt Service Fund	Retiree Benefits Fund	Non-Major Governmental Funds
\$ 325,968	\$ 499,765	\$ 1,212,871	\$ 3,258,353
1,049	-	3,415	106,891
-	-	-	144
-	-	-	8,291
<u>\$ 327,017</u>	<u>\$ 499,765</u>	<u>\$ 1,216,286</u>	<u>\$ 3,373,679</u>

\$ -	\$ -	\$ -	\$ 7,482
<u>-</u>	<u>-</u>	<u>-</u>	<u>7,482</u>

-	-	-	11,141
320,233	499,765	-	1,778,226
-	-	1,216,286	1,570,046
6,784	-	-	6,784
<u>327,017</u>	<u>499,765</u>	<u>1,216,286</u>	<u>3,366,197</u>
<u>\$ 327,017</u>	<u>\$ 499,765</u>	<u>\$ 1,216,286</u>	<u>\$ 3,373,679</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES			
Other local sources	\$ 580,632	\$ 42,094	\$ 276,843
Total Revenues	<u>580,632</u>	<u>42,094</u>	<u>276,843</u>
EXPENDITURES			
Current			
Pupil services:			
Food services	791,255	-	-
Plant services	-	130,660	-
Facility acquisition and construction	-	-	-
Debt services:			
Principal	-	-	83,406
Interest and other	-	-	84,935
Total Expenditures	<u>791,255</u>	<u>130,660</u>	<u>168,341</u>
Excess (deficiency) of revenues over expenditures	(210,623)	(88,566)	108,502
Other Financing Sources (Uses):			
Transfers in	221,764	175,000	-
NET CHANGE IN FUND BALANCES	<u>11,141</u>	<u>86,434</u>	<u>108,502</u>
Fund Balances - Beginning	<u>-</u>	<u>267,326</u>	<u>849,726</u>
Fund Balances - Ending	<u>\$ 11,141</u>	<u>\$ 353,760</u>	<u>\$ 958,228</u>

See accompanying note to supplementary information.

Special Reserve Capital Fund	COP Debt Service Fund	Retiree Benefits Fund	Non-Major Governmental Funds
\$ 5,608	\$ 729	\$ 11,643	\$ 917,549
<u>5,608</u>	<u>729</u>	<u>11,643</u>	<u>917,549</u>
-	-	-	791,255
-	-	-	130,660
261,800	-	-	261,800
765,000	-	-	848,406
183,610	-	-	268,545
<u>1,210,410</u>	<u>-</u>	<u>-</u>	<u>2,300,666</u>
(1,204,802)	729	11,643	(1,383,117)
1,110,000	-	-	1,506,764
<u>(94,802)</u>	<u>729</u>	<u>11,643</u>	<u>123,647</u>
421,819	499,036	1,204,643	3,242,550
<u>\$ 327,017</u>	<u>\$ 499,765</u>	<u>\$ 1,216,286</u>	<u>\$ 3,366,197</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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). 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.

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. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District did not receive incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District 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.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report, to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

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

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

INDEPENDENT AUDITOR'S REPORTS

This page left blank intentionally.



**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
Los Gatos-Saratoga Joint Union High School District
Los Gatos, 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 Los Gatos-Saratoga Joint Union High 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 December 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Los Gatos-Saratoga Joint Union High School 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 Los Gatos-Saratoga Joint Union High School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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


Palo Alto, California
December 8, 2017



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

Governing Board
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

Report on Compliance for Each Major Federal Program

We have audited Los Gatos-Saratoga Joint Union High School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Los Gatos-Saratoga Joint Union High School District's (District) major federal programs for the year ended June 30, 2017. Los Gatos-Saratoga Joint Union High School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the 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 Los Gatos-Saratoga Joint Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Los Gatos-Saratoga Joint Union High School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Los Gatos-Saratoga Joint Union High School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Los Gatos-Saratoga Joint Union High School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Los Gatos-Saratoga Joint Union High School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.



Palo Alto, California
December 8, 2017



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

Report on State Compliance

We have audited Los Gatos-Saratoga Joint Union High School District's 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 Los Gatos-Saratoga Joint Union High School 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 Los Gatos-Saratoga Joint Union High School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 Los Gatos-Saratoga Joint Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Los Gatos-Saratoga Joint Union High School District's compliance with those requirements.

Basis for Qualified Opinion on Unduplicated Pupil Count

As described in the accompanying schedule of findings and questioned costs, Los Gatos-Saratoga Joint Union High School District did not comply with requirements regarding *Unduplicated Local Control Funding Formula Pupil Counts*. Compliance with such requirements is necessary, in our opinion, for Los Gatos-Saratoga Joint Union High School District to comply with the requirements applicable to that program.

Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Programs

In our opinion, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

Other Matters

In connection with the audit referred to above, we selected and tested transactions and records to determine the Los Gatos-Saratoga Joint Union High School District's compliance with the state laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
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	Yes
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below

	<u>Procedures Performed</u>
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes

CHARTER SCHOOLS

Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer a Kindergarten Continuance Program, Independent Study Program, Continuation Education Program, Early Retirement Incentive Program, Juvenile Court Schools, a K-3 Grade Span Adjustment Program, Transportation Maintenance of Effort Program, Before or After School Education and Safety Programs, Course based independent study or Charter School Programs, therefore we did not perform procedures related to these programs.

Vassinek, Trine, Day & Co., LLP
 Palo Alto, California
 December 8, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>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>84.027, 8427A</u>	<u>Special Education 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 all state programs:
 Unmodified for all programs except for the Unduplicated Local Control Funding Formula Pupil Counts which was qualified.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

None reported.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

None reported.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

The following finding represent instance of noncompliance and questioned costs relating to state program laws and regulations. The finding has been coded as follows:

2017-001 Code: 40000 Unduplicated Local Control Funding Formula Pupil Counts

Criteria or Specific Requirements

Supplemental and concentration grant amounts are calculated based on the percentage of “unduplicated pupils” enrolled in the District on census day (first Wednesday in October). The percentage equals:

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

“Unduplicated count” means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC sections 2574(b) (2) and 42238.02(b)(1)). Data submitted by LEAs to CALPADS is used as the starting point for calculating the unduplicated student count. CALPADS Certification Report 1.17 – FRPM/English Learner/Foster Youth – Count, displays the counts of students by category and an unduplicated total.

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

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

Condition

During our testing for students that are identified as only ELAS, we selected 10 samples and noted that one identified as ELAS, in fact, is not an ELAS student. After the finding, a 100 percent ELAS students’ status was examined and total 4 students’ status were corrected.

Questioned Costs

There is no question cost resulted from this finding. The reclassification of 4 students’ status from ELAS to regular students, results in 0.04% decrease of “Unduplicated Pupil Percentage” from 3.37% to 3.33% and a \$1,274 decrease in “Transition Entitlement”. However, the District is a community funded “basic aid” school district, therefore, received only minimum state aid guarantee.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

Context

CALPADS certified total enrollment count was 3,368 and the certified total unduplicated pupil count was 106. Decreases to the unduplicated pupil count based on the audit are 4 resulting in an adjusted count of 102. All the decreases are to the category of pupils designated as “English learner” (EL).

Effect

Incorrect reporting can result in calculation error in LCFF funding.

The finding disclosed that the status of 4 students was reclassified from ELAS to regular students. This results in the District’s 2016-17 unduplicated pupil count shown in CalPADS decrease to 102 from previous 106.

Cause

The differences in classification between Aeries and CALPADS is primarily due to errors in data reported to CALPADS due to reclassifications since the initial entry into CALPADS.

Recommendation

Periodic review and reconciliation of the District’s data and CALPADS data should be performed to ensure the integrity of data.

Corrective Action Plan

The District relied on an Aeries report titled "SELA Conflict" to catch inconsistencies between District data and CALPADS, but at the time the report did not catch the inconsistencies identified in the audit.

The District reported this to Aeries support and they recently corrected the programming. The District will rely on the corrected report to detect conflicts. The District will additionally validate the report by using data queries to check for mismatches between District data and CALPADS designations. The District will establish a procedure for a staff member at each school site to sign off on the list of EL students for Fall I and End of Year reporting. Currently the District sends out certification reports (summary data). In the future the District will also attach detailed reports that identify each identified student by name.

The district has submitted corrected CALPADS data for the 2016-17 year.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

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