CUPERTINO UNION SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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CUPERTINO UNION SCHOOL DISTRICT

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FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cupertino Union School District
Cupertino, 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 Cupertino Union 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.

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

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 Cupertino Union 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 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 Cupertino Union 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 Schedule of Expenditures of Federal Awards and the other supplementary information as listed on the table of contents 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017, on our consideration of the Cupertino Union 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 Cupertino Union 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 Cupertino Union School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 2, 2017

CUPERTINO UNION SCHOOL DISTRICT

Management's Discussion and Analysis

DISTRICT PROFILE

THE MISSION OF THE CUPERTINO UNION SCHOOL DISTRICT IS TO PROVIDE A CHILD-CENTERED ENVIRONMENT THAT CULTIVATES CHARACTER, FOSTERS ACADEMIC EXCELLENCE, AND EMBRACES DIVERSITY. DISTRICT FAMILIES, COMMUNITY, AND STAFF JOIN AS PARTNERS TO DEVELOP CREATIVE, EXEMPLARY LEARNERS WITH THE SKILLS AND ENTHUSIASM TO CONTRIBUTE TO A CONSTANTLY CHANGING GLOBAL SOCIETY.

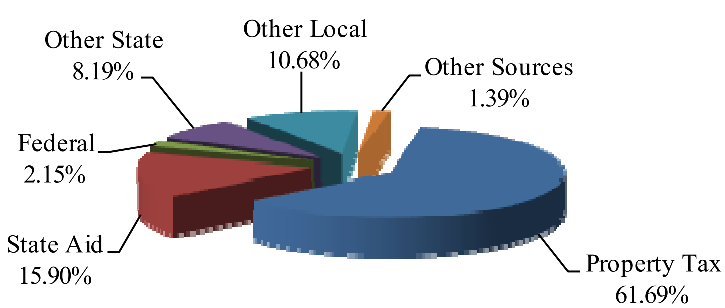
The Cupertino Union School District (CUSD) was established in 1916. The District operates twenty elementary schools, and five middle schools. The District serves over 18,000 K-8 students in a 26-square mile area that includes the City of Cupertino and portions of five other cities in California's Silicon Valley. The student population is richly diverse.

FINANCIAL HIGHLIGHTS

Local Control Funding Formula School District

The District has been a revenue limit school district since its inception. A revenue limit school district is a district whose local property tax revenues are less than the state calculated "revenue limit" amount and the state therefore back-fills the difference. Starting 2013-14, the State changed its funding calculation to Local Control Funding Formula (LCFF). The LCFF combined principal apportionment and previous flexed categorical program into one funding. In 2016-17, the District has not met its target entitlement. The composition of the District's sources of General fund revenue can be illustrated in Chart - 1:

Chart - 1
Cupertino Union School District
General Fund Revenue Sources
FY 2016-2017



2017 Results of Operations

As of June 30, 2017, the District's general fund recorded total revenue of $190,479,846 and total expenditures of $185,775,969, resulting in an ending fund balance of $33,212,001. Of this amount, $5,573,279 is the required three percent statutory reserves and $5,573,280 is the additional reserves for future downturn. Other components of the ending fund balance include $464,032 reserved for working capital, $8,071,317 restricted for categorical programs and $13,530,093 for various school and program carryovers.

The total general fund revenues of $190,479,846 are from the following sources: 77.59% local control funding formula (61.69% property tax and 15.9% state aid), 2.15% federal programs, 8.19% state programs, 10.68% local revenue (parcel tax, interest, rental and fees), 1.39% other sources from Building fund for routine restricted maintenance and from Self-Insurance fund for health and welfare excess charges.

Local Control Funding Formula

In fiscal year 2016-2017 the District's LCFF Transition Entitlement was $140,084,677, increased $5,446,960 from prior year's $134,637,717. The LCFF funding model provides "Current Year Adjusted Based Grant per ADA" for the following grade levels: $7,820 for K-3, $7,189 for 4-6, and $7,403 for 7-8. LCFF also provides 20% supplemental grant and 50% concentration grant if qualified. The supplemental and concentration grant increases are calculated based on the percentage of total enrollment accounted for by English learners, free and reduced-price meal program eligible students and foster youth. The 2016-2017 LCFF funding includes the following: COLA 0.00%, ADA (average daily attendance) – 18,578, and gap funding rate 56.08%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Financial Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional factors such as the economy of the State, and hence, the State's budget, the local economy, which could impact student enrollment and the condition of school buildings and other facilities.

Fund Financial Statements

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

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

The District has three kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, we provide reconciliations between the governmental funds statements and the government-wide statements that explain the relationships (or differences) between them.
- Proprietary funds - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements, i.e., using full accrual accounting. Internal service funds (one kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund - the self-insurance fund.
- Fiduciary funds - The District is the trust, or fiduciary, for assets that belong to others, such as the private purpose trust and student funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

As of June 30, 2017, the District's combined net position decreased $6,664,913 from prior year with a negative $146.8 million. (See Table A - 1.)

Table A - 1
Cupertino Union School District
Net Position
(in millions of dollars)

	Governmental Activities 2016	Governmental Activities 2017	Percent Changes
Current and other assets	$ 150.1	$ 122.9	-18.1%
Capital assets	208.8	219.9	5.3%
Total Assets	358.9	342.8	-4.5%
Deferred charge on refunding	4.8	4.0	-16.7%
Deferred outflows of resources related to pensions	15.8	60.0	279.7%
Total Deferred Outflows of Resources	20.6	64.0	210.7%
Current liabilities	34.9	31.9	-8.6%
Long-term debt	467.7	497.1	6.3%
Total Liabilities	502.6	529.0	5.3%
Difference between actual and expected rate of investment return	16.9	24.5	45.0%
Total Deferred Inflows of Resources	16.9	24.5	100.0%
Net investment in capital assets	(35.3)	(38.3)	8.5%
Restricted	30.4	29.4	-3.3%
Unrestricted	(135.2)	(137.8)	1.9%
Total Net Position	$ (140.1)	$ (146.7)	4.7%

The changes in the District's financial position include the following: the decrease of $3.0 million in net investment in capital assets, the decrease of $1.0 million in restricted net position, and the decrease of $2.6 million in the unrestricted net position. In 2016-2017, the District's total assets decreased by $16.1 million, or 4.5%, which resulted from the decrease of $27.2 million, or 18.1% in current assets and an increase of $11.1 million, or 5.3% in capital assets. The total liabilities increased by $26.4 million, or 5.3%, which resulted from a decrease of $3.0 million in current liabilities, and an increase of $29.4 million in long-term debt. The decrease in current liabilities was mostly from the decrease in accounts payable at the end of the year and the current portion of the long-term obligation. The increase in long-term debt was due to the increase in pension liability see Note 12 for more details.

Changes in Net Position

The District's total revenues increased by 0.5 percent, or $1.1 million to $219.5 million. (See Table A - 2.) The increase mostly resulted from the combination of $15.5 million increase in property taxes and $14.5 million decrease in federal and state revenues.

Table A - 2
Cupertino Union School District
Changes in Net Position
(in millions of dollars)

	Governmental Activities		Percent Changes
	2016	**2017**	
Revenues			
Program revenues			
Charges for services	$ 3.5	$ 3.4	-2.9%
Operating grants and contributions	18.3	15.9	-13.1%
General revenues			
Property taxes	130.7	146.2	11.9%
Federal and State aid	52.7	38.2	-27.5%
Interest and investment earnings	0.3	0.5	51.5%
Miscellaneous	12.9	15.3	18.6%
Total revenues	218.4	219.5	0.5%
Expenses			
Instruction	134.3	143.2	6.6%
Instruction related activities	25.2	25.2	0.0%
Pupil services	13.5	14.5	7.4%
General administration	10.1	10.0	-1.0%
Plant services	23.9	20.8	-13.0%
Ancillary and community services	0.5	0.5	0.0%
Interest on long-term debt	10.9	12.0	10.1%
Total expenses	218.4	226.2	3.6%
Increase (decrease) in net assets	$ 0.0	$ (6.7)	100.0%

The total cost of all programs and services increased $7.9 million to $226.3 million. The District's expenses are predominantly related to instruction and instruction related activities (79.55 percent). (See Chart - 3) During 2016-2017, instruction and instruction related activity expenses rose by $8.9 million, or 5.6%, plant services decreased by $3.1 million, or 13.0% and the interest on long-term debt also increased by $1.1 million, or 10.1%.

Total expenses exceeded total revenues by $6.8, which decreased net position to $146.8 in 2016-2017.

Governmental Activities

Charts 2 and 3 below illustrate the composition of the District's general fund expenditures, both by object and by function codes. As is common with other school districts, the majority of expenditures are for personnel salaries and the related benefits (approximately 88.18%).

Chart - 2
Cupertino Union School District
General Fund Expenditures by Object
FY 2016-2017

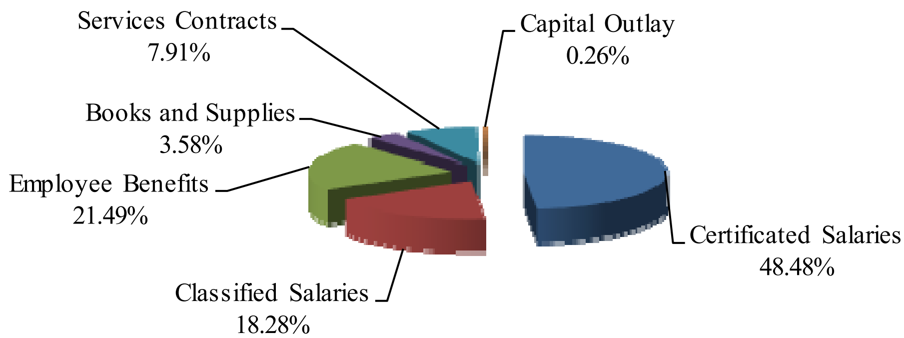
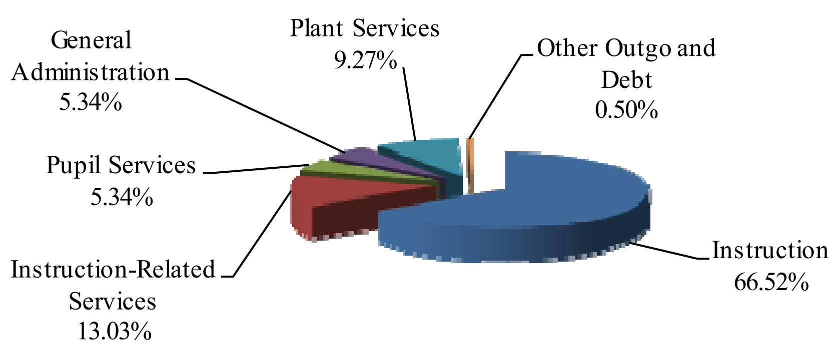


Chart - 3
Cupertino Union School District
General Fund Expenditures by Function
FY 2016-2017



General Fund Budgetary Highlights

The original adopted budget projected an ending fund balance of $28,602,958. The final budget projected an ending fund balance of $26,910,575. There are several major factors that contributed to the variance in the projected fund balances: (1) The District's original budget was based on the Governor's May Revision, and was adopted on June 13, which was before the State adopted its budget in late June. (2) The one-time fund per ADA amount was $23 higher in the State adopted budget vs. Governor's May Revise, which results in an increase of $385,140 in one-time fund for the district in the final budget. (3) The final budget showed an increase of 170 ADA in the 2016-17 P-2 vs. the district's Adoption budget, which resulted in an increase of $241,472 in the LCFF fund. (4) The original budget did not include any school or program carryovers from the closing fiscal year. The final budget included the carryovers from the school sites and the categorical programs from the year-end closing which was completed after the District's budget adoption.

Our actual ending fund balance as of June 30, 2017 is $33,212,001 with $13,530,093 reserved for school/program carryover and assigned balances. The final budget projected an ending fund balance of $26,910,575, with $9,663,055 reserved for school/program carryover and assigned balances.

The overall difference between the actual ending fund balance and final budget has a favorable variance of $6,301,426, which includes an increase of $3,674,210 in unrestricted ending balance, and an increase of $2,627,216 in reserves for unspent categorical programs. The higher unrestricted ending balance of $3,674,210 resulted from the following variances: $39,156 from lower unrestricted revenue, and $3,713,366 from lower unrestricted expenditures and transfer out. The lower than projected unrestricted expenditures resulted from saving in personnel costs, other operating expenses, and higher unspent balance from the school and program carryovers. The unspent balance of the carryovers is projected to be spent in 2017-2018.

The overall difference between the actual ending fund balance and final budget in the restricted program was $2,627,216. It was a result of $1,707,084 lower restricted revenue and $4,335,455 from lower restricted expenditures, resulting in higher unspent balances at the end of the year. Also, in the past the District recognized any unspent categorical local donation dollars as a deferred revenue. Beginning this FY 2016-17, the District recognized any unspent categorical local donation as carryovers in 2017-18.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017 the District had $484.9 million invested in a broad range of capital assets, including land, school buildings, modulars, computers and audio-visual equipment. (See Table A - 3.) This amount represents a net increase of $20.5 million or 4.47 percent over 2015-2016, which was mostly from the facilities modernization projects completed and several modulars installed at various schools. The major funding sources for these projects were from the proceeds from the sale of General Obligation Bonds and developer fees.

Table A - 3
Cupertino Union School District
Capital Assets at Year - End
(in millions of dollars)

	Governmental Activities 2016	Governmental Activities 2017	Changes
Land	$ 3.2	$ 8.6	$ 5.4
Site improvments	31.5	34.5	3.0
Building and improvements	417.1	434.3	17.2
Furniture and equipment	7.2	7.5	0.3
Totals	$ 459.0	$ 484.9	$ 20.5

Capital Facilities Projects

In June 2012 voters approved Measure H, a $220 million general obligation bond for facility improvements. Additional District staff was hired to manage the Measure H bond program and selections of Architects, Construction Managers and other consultants were finalized and approved. As of June 30, 2017, approximately 72% of the $220 million program total has been spent.

The District has sold three bond series, one for $50,000,000 in October 2012, the second for $99,995,000 in April 2014 and the third for $55,000,000 in March 2016. The Board of Education approved the initial Measure H Bond Program Implementation Plan in January 2013 and has approved five annual updates since. The Board also approves all changes to the approved bond project list on a quarterly basis.

The Measure H Bond Program undergoes financial and performance audits on a yearly basis. The bond program is also overseen by the Measure H Citizens Bond Oversight Committee (CBOC) which meets quarterly.

In 2017 approximately $21.4 million of construction work was awarded.

Long-Term Debt

As of June 30, 2017, the District had a total of $509.9 million in total long-term debt outstanding, of which $311.4 million in general obligation bonds, $197.0 million in pension liabilities and $1.5 million in other long-term debts. (See Table A - 4.) This amount represents a net increase of $28.4 million or 5.9 percent from 2015-16. The net increase includes the combination of $13.4 million decrease in the General Obligation Bonds, and $42.1 million increase in pension liabilities.

Table A - 4
Cupertino Union School District
Outstainding Long-Term Debt at Year-End
(in millions of dollars)

	Governmental Activities		Changes
	2016	**2017**	
General obligation bonds	$ 324.8	$ 311.4	$ (13.4)
Capital leases	0.2	0.1	(0.1)
Compensated absences	1.6	1.4	(0.2)
Pension liabilities	154.9	197.0	42.1
Totals	$ 481.5	$ 509.9	$ 28.4

FACTORS BEARING ON THE DISTRICT'S FUTURE

FY 2017-18 saw the State budget adopted on time. The State Budget incorporated many of the Governor's May Revision provisions with a few minor changes. For school districts, this will be the fifth year of implementing the Local Control Funding Formula (LCFF). It is estimated that the change in LCFF funding will close 43.19% of the "gap" toward the funding target for each school district in 2017-18. The target base grant by grade span for 2017-18 have increased from 2016-17 because the statutory COLA is 1.56%. The State has started a 7-year implementation schedule to retire the $73.7 billion STRS shortfall. Over the span, the employer and employee contribution rates will increase over their previous rates of 8.25% and 8.0% respectfully. The employer contributions rates will increase to 19.1% by 2020-21. The employee contribution rates will increase to 10.25% by 2017-18. The employer contribution to CalPERS will increase from 13.88% to 15.53% in 2017-18, and to 23.8% by 2020-21. The District continues to operate with a conservative budget philosophy. This is reflective by the District's ending reserve balance in addition to the mandated fund balance reserve for economic uncertainties.

Net Pension Liability (NPL)

Per GASB 68, districts are required to recognize the STRS and PERS employer costs and obligation for pensions on the financial statements, effective 2013-14. The STRS on-behalf pension contribution for the District is calculated to be $5,430,211, which is recorded as the state revenue and the expenditures in the new resource code 7690.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Chris Jew, Chief Business Officer, Business Services
10301 Vista Drive, Cupertino, CA 95014

Dorothy Reconose, Director of Fiscal Services
10301 Vista Drive, Cupertino, CA 95014

CUPERTINO UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	$ 117,578,107
Receivables	4,902,823
Prepaid expenses	341,936
Stores inventories	113,325
Capital assets not depreciated	8,600,683
Capital assets, net of accumulated depreciation	211,343,020
Total Assets	342,879,894
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	3,961,333
Deferred outflows of resources related to pensions	59,982,051
Total Deferred Outflows of Resources	63,943,384
LIABILITIES	
Accounts payable	9,078,931
Interest payable	5,599,180
Unearned revenue	1,400,702
Claim liabilities	3,089,504
Current portion of long-term obligations other than pensions	12,777,542
Noncurrent portion of long-term obligations other than pensions	300,126,066
Aggregate net pension liability	197,022,104
Total Liabilities	529,094,029
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	24,507,885
Total Deferred Inflows of Resources	24,507,885
NET POSITION	
Net investment in capital assets	(38,350,114)
Restricted for:	
Debt services	15,456,094
Capital projects	1,147,448
Educational program	8,071,317
Food services	666,670
Insurance programs	4,052,777
Unrestricted	(137,822,828)
Total Net Position	$ (146,778,636)

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

CUPERTINO UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expenses) Revenues and Change in Net Position
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities:				
Instruction	$ 143,214,724	$ -	$ 11,060,352	$ (132,154,372)
Instruction-related activities:				
Supervision of instruction	10,103,664	-	1,722,586	(8,381,078)
Instructional library, media, and technology	2,225,347	-	150,701	(2,074,646)
School site administration	12,896,427	-	385,055	(12,511,372)
Pupil services:				
Home-to-school transportation	4,272,585	-	-	(4,272,585)
Food services	4,049,096	3,263,389	635,359	(150,348)
All other pupil services	6,247,364	-	621,215	(5,626,149)
Administration:				
Data processing	1,862,016	-	-	(1,862,016)
All other administration	8,126,129	160,440	258,410	(7,707,279)
Plant services	20,759,284	10,381	973,304	(19,775,599)
Ancillary services	311,458	-	77,098	(234,360)
Community services	155,384	-	-	(155,384)
Interest on long-term obligations	11,956,419	-	-	(11,956,419)
Total Governmental Activities	$ 226,179,897	$ 3,434,210	$ 15,884,080	(206,861,607)
General revenues and subventions:				
Property taxes, levied for general purposes				116,983,354
Property taxes, levied for debt service				20,663,113
Taxes levied for other specific purposes				8,568,670
Federal and State aid not restricted to specific purposes				38,211,766
Interest and investment earnings				462,706
Miscellaneous				15,307,085
Subtotal, General Revenues				200,196,694
Change in Net Position				(6,664,913)
Net Position - Beginning				(140,113,723)
Net Position - Ending				$ (146,778,636)

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

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CUPERTINO UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund		Building Fund		Bond Interest and Redemption Fund	
ASSETS						
Deposits and investments	$	33,121,113	$	53,201,749	$	21,017,720
Receivables		4,659,477		157,242		37,554
Due from other funds		402,832		7,540		-
Prepaid expenditures		341,422		-		-
Stores inventories		47,610		-		-
Total Assets	$	38,572,454	$	53,366,531	$	21,055,274
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$	5,209,439	$	3,765,838	$	-
Due to other funds		12,008		367,809		-
Unearned revenue		139,006		-		-
Total Liabilities		5,360,453		4,133,647		-
Fund Balances:						
Nonspendable		464,032		-		-
Restricted		8,071,317		49,232,884		21,055,274
Assigned		13,530,093		-		-
Unassigned		11,146,559		-		-
Total Fund Balances		33,212,001		49,232,884		21,055,274
Total Liabilities and Fund Balances	$	38,572,454	$	53,366,531	$	21,055,274

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

Non-Major Governmental Funds	Total Governmental Funds
$ 1,765,098	$ 109,105,680
33,955	4,888,228
4,468	414,840
514	341,936
65,715	113,325
$ 1,869,750	$ 114,864,009
$ 20,609	$ 8,995,886
35,023	414,840
-	139,006
55,632	9,549,732
68,188	532,220
1,745,930	80,105,405
-	13,530,093
-	11,146,559
1,814,118	105,314,277
$ 1,869,750	$ 114,864,009

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

Total Fund Balance - Governmental Funds		**$ 105,314,277**
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	$ 484,866,955	
Accumulated depreciation is	(264,923,252)	
Net Capital Assets		219,943,703
Deferred outflows related to refunding and pension activitiesare not recorded in the governmental funds because they are not current resources.		63,943,384
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(5,599,180)
An internal service fund is used by the District's management to charge for the costs of various insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		4,052,777
Deferred inflows from pension activities are not recorded on the governmental funds but are recognized on the government-wide statement of net position.		(24,507,885)
Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable and premiums	311,417,436	
Capital leases payable	70,598	
Compensated absences (vacations)	1,415,574	
Net pension liability	197,022,104	
Total Long-Term Obligations		(509,925,712)
Total Net Position - Governmental Activities		**$ (146,778,636)**

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

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CUPERTINO UNION 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	$ 147,819,999	$ -	$ -
Federal sources	4,090,524	-	-
Other state sources	15,594,642	-	89,171
Other local sources	20,336,181	3,416,977	20,723,794
Total Revenues	187,841,346	3,416,977	20,812,965
EXPENDITURES			
Current			
Instruction	123,598,485	-	-
Instruction-related activities:			
Supervision of instruction	9,691,279	-	-
Instructional library, media and technology	2,134,967	-	-
School site administration	12,372,651	-	-
Pupil services:			
Home-to-school transportation	3,925,718	-	-
Food services	-	-	-
All other pupil services	5,993,633	-	-
Administration:			
Data processing	1,780,170	-	-
All other administration	8,133,055	-	-
Plant services	17,212,462	-	-
Ancillary services	298,808	-	-
Community services	149,073	-	-
Facility acquisition and construction	385,679	27,879,233	-
Debt service			
Principal	85,250	-	11,635,000
Interest and other	13,806	-	12,370,613
Total Expenditures	185,775,036	27,879,233	24,005,613
Excess (Deficiency) of Revenues Over Expenditures	2,066,310	(24,462,256)	(3,192,648)
Other Financing Sources (Uses)			
Transfers in	2,638,500	-	-
Transfers out	(933)	(2,453,509)	-
Net Financing Sources	2,637,567	(2,453,509)	-
NET CHANGE IN FUND BALANCES	4,703,877	(26,915,765)	(3,192,648)
Fund Balance - Beginning	28,508,124	76,148,649	24,247,922
Fund Balance - Ending	$ 33,212,001	$ 49,232,884	$ 21,055,274

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

Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 147,819,999
634,170	4,724,694
76,985	15,760,798
4,164,157	48,641,109
4,875,312	216,946,600
48,724	123,647,209
-	9,691,279
-	2,134,967
-	12,372,651
-	3,925,718
3,856,419	3,856,419
-	5,993,633
-	1,780,170
211,963	8,345,018
12,267	17,224,729
-	298,808
-	149,073
320,164	28,585,076
-	11,720,250
-	12,384,419
4,449,537	242,109,419
425,775	(25,162,819)
933	2,639,433
-	(2,454,442)
933	184,991
426,708	(24,977,828)
1,387,410	130,292,105
$ 1,814,118	$ 105,314,277

CUPERTINO UNION 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		**$ (24,977,828)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	$ 25,901,358	
Depreciation expense	(14,709,717)	
Net Income Adjustment		11,191,641
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(2,896)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned.		154,564
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.		(5,510,093)
Accreted interest is not an expenditure in the governmental funds, but it increases the long term liabilities in the Statement of Net Position and is reflected as additional interest expense in the Statement of Activities.		(232,467)
Payment of principal on general obligation bonds 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.		11,635,000
Payment of principal on capital leases is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		85,250

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

CUPERTINO UNION 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

Amortization of bond premium is not recorded in the governmental funds, but is amortized over the life of the bond in the Statement of Activities.	2,021,944
Amortization of defeasance cost is not recorded in the governmental funds, but is amortized over the life of the bond in the Statement of Activities.	(858,595)
Interest on long-term obligation is recorded as an expenditure in the governmental funds when it is due; however, in the Statment of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(502,882)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation and other employee benefit programs to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	331,449
Change in Net Position of Governmental Activities	**$ (6,664,913)**

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

CUPERTINO UNION SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 8,472,427
Receivables	14,595
Total Current Assets	8,487,022
LIABILITIES	
Current Liabilities	
Accounts payable	83,045
Unearned revenue	1,261,696
Non-Current Liabilities	
Claim liabilities	3,089,504
Total Current Liabilities	4,434,245
NET POSITION	
Restricted for insurance programs	4,052,777
Total Net Position	$ 4,052,777

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

CUPERTINO UNION SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-District premiums	$ 23,128,482
Total Operating Revenues	23,128,482
OPERATING EXPENSES	
Payroll costs	217,296
Insurance	22,155,359
Supplies and materials	226
Other operating cost	298,864
Total Operating Expenses	22,671,745
Operating Income	456,737
NONOPERATING REVENUES	
Interest income	59,703
Transfers out	(184,991)
Total Nonoperating Revenues	(125,288)
Change in Net Position	331,449
Total Net Position - Beginning	3,721,328
Total Net Position - Ending	$ 4,052,777

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

CUPERTINO UNION SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 23,126,279
Cash payments to employees for services	(217,946)
Cash payments for insurance claims	(22,440,884)
Cash payments to suppliers for goods and services	(85,745)
Net Cash Provided for Operating Activities	381,704
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	55,664
Transfers out	(220,219)
Net Cash Used for Investing Activities	(164,555)
Net increase in cash and cash equivalents	217,149
Cash and cash equivalents - Beginning	8,255,278
Cash and cash equivalents - Ending	$ 8,472,427
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating income	$ 456,737
Changes in assets and liabilities:	
Receivables	4,081
Accounts payable	(72,830)
Unearned revenue	(6,284)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 381,704

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

FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	Agency Fund
ASSETS	
Deposits and investments	$ 104,151
Total Assets	$ 104,151
LIABILITIES	
Due to student groups	$ 104,151
Total Liabilities	$ 104,151

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Cupertino Union School District was organized in 1916 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and Federal agencies. The District operates twenty elementary and five middle schools.

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 Cupertino Union School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

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 established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Child Development Fund The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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

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

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

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

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

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The District has only an agency fund.

Agency Fund Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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. 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.

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements prepared on the accrual basis of accounting, using the economic resources measurement focus and the statements for the governmental funds prepared on a modified accrual basis of accounting using the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in net total position. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds 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.

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

Investments

Investments held at June 30, 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 state or county investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average cost 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. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds. In the government-wide Statement of Net Position and Statement of Activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by an annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

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

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 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 on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

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 from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest, from bonds, capital leases or other long-term loans, are recognized as expenditures in the governmental fund financial statements when paid.

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, or proprietary fund 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.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of 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 or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds, current year pension contributions, difference between expected and actual experience in the measurement of the total pension liability, and change of District's proportionate share of net pension liabilities.

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 items. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability, difference between expected and actual experience in the measurement of the total pension liability, change of assumptions and change of District's proportionate share of net pension liabilities.

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. The District currently does not have any committed funds.

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

Unassigned - all other spendable amounts.

Spending Order Policy

When 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 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

In fiscal year 2010-2011, 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 3 percent of General Fund expenditures and other financing uses.

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 its use either through the enabling legislation 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.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

lnterfund Activity

Transfers between governmental and proprietary activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on-behalf payments have not been included as revenue and expenditures.

Property Tax

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

New Accounting Pronouncements Effective This Fiscal Year

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the District.

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 15 for more details.

GASB Statement No. 78 – In December 2015, GASB issued Statement No 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not expect to have material impact on the financial statements of the District.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the District.

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. This pronouncement did not have an impact on the financial statements of the District.

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.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental funds	$ 109,105,680
Proprietary fund	8,472,427
Fiduciary fund	104,151
Total Deposits and Investments	$ 117,682,258

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

Cash on hand and in banks	$ 2,152,200
Cash in revolving	76,959
Investments	115,453,099
Total Deposits and Investments	$ 117,682,258

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 amortized cost which approximates 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.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The cost and fair value of the deposits with the County Treasurer at June 30, 2017 were $115,453,099 and $115,185,685, respectively, and the weighted average life of pool investments was 528 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in County Pool is not required to be rated, nor has it been rated as of June 30, 2017.

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 agency. 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 amount excess of federal depository insurance coverage was approximately of $1,829,124.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets.
Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized – Investment in the County Treasury Investment Pool are not measure 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. As of June 30, 2017, all of the District's investment is in the Santa Clara county Treasury.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government						
Categorical aid	$ 929,455	$ -	$ -	$ 17,033	$ 946,488	$ -
State Government						
Categorical aid	881,651	-	-	11,256	892,907	-
Lottery	1,781,029	-	-	-	1,781,029	-
Local Government						
Interest	104,191	153,880	37,554	5,053	300,678	14,558
Other Local Sources	963,151	3,362	-	613	967,126	37
Total	$ 4,659,477	$ 157,242	$ 37,554	$ 33,955	$ 4,888,228	$ 14,595

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 3,192,428	$ 5,408,255	$ -	$ 8,600,683
Capital Assets Being Depreciated:				
Land Improvements	31,510,539	2,982,165	-	34,492,704
Buildings and Improvements	351,050,794	15,193,805	-	366,244,599
Modulars	66,046,178	1,977,942	-	68,024,120
Machinery and Equipment	7,243,570	339,191	77,912	7,504,849
Total Capital Assets Being Depreciated	455,851,081	20,493,103	77,912	476,266,272
Total Capital Assets	459,043,509	25,901,358	77,912	484,866,955
Less Accumulated Depreciation:				
Land Improvements	13,628,610	1,027,535	-	14,656,145
Buildings and Improvements	209,093,722	10,778,078	-	219,871,800
Modulars	22,406,057	2,511,726	-	24,917,783
Machinery and Equipment	5,160,162	392,378	75,016	5,477,524
Total Accumulated Depreciation	250,288,551	14,709,717	75,016	264,923,252
Governmental Activities Capital Assets, Net	$ 208,754,958	$ 11,191,641	$ 2,896	$ 219,943,703

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

Governmental Activities	
Instruction	$ 14,333,111
Supervision of instruction	2,120
Pupil transportation	180,678
Food services	29,422
All other general administration	36,243
Data processing	6,485
Plant maintenaince and operations	121,658
Total Depreciation Expense Governmental Activities	$ 14,709,717

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds, and internal service fund are as follows:

Due To	Due From: General Fund	Due From: Building Fund	Due From: Non-Major Governmental Funds	Total
General Fund	$ -	$ 7,540	$ 4,468	$ 12,008
Building Fund	367,809	-	-	$ 367,809
Non-Major Governmental Funds	35,023	-	-	35,023
Total	$ 402,832	$ 7,540	$ 4,468	$ 414,840

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

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

Transfer Out	Transfer In: General Fund	Transfer In: Non-Major Governmental Funds	Total
General Fund	$ -	$ 933	$ 933
Building Fund	2,453,509	-	2,453,509
Proprietary Fund	184,991	-	184,991
Total	$ 2,638,500	$ 933	$ 2,639,433

The Building Fund transferred to the General Fund for the Routine Restricted Maintenance Account (RRMA).	$ 2,453,509
The Proprietary Fund transferred to the General Fund for the health and welfare excess charges.	184,991
The General Fund transferred to the Cafeteria Fund to cover the deficit fund balance.	933
Total	$ 2,639,433

NOTE 6 - DEFERRED CHARGES ON REFUNDING

Deferred outflows of resources are a consumption 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 $38,350,114 includes the effect of deferring the recognition of loss of $3,961,333 from advance refunding. The loss will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The changes in the District's deferred charges on refunding during the year are as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Bond defeasance costs	$ 4,819,928	$ -	$ 858,595	$ 3,961,333

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Governmental Funds Total	Proprietary Fund
Vendor payables	$ 246,833	$ 3,607,946	$ 20,060	$ 3,874,839	$ 83,045
State principal apportionment	543,249	-	470	543,719	-
Salaries and benefits	3,170,139	-	-	3,170,139	-
Due to grantor	1,221,538	-	-	1,221,538	-
Other payables	27,680	157,892	79	185,651	-
Total	$ 5,209,439	$ 3,765,838	$ 20,609	$ 8,995,886	$ 83,045

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Proprietary Fund
Employee health care benefits withheld	$ 139,006	$ 1,261,696

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	Additions	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	$ 294,115,353	$ 232,467	$ 11,635,000	$ 282,712,820	$ 10,685,000
Bond premium	30,726,560	-	2,021,944	28,704,616	2,021,944
Compensated absences	1,570,138	-	154,564	1,415,574	-
Capital leases	155,848	-	85,250	70,598	70,598
Subtotal	326,567,899	232,467	13,896,758	312,903,608	12,777,542
Pension liabilities	154,921,754	42,100,350	-	197,022,104	-
Total	$ 481,489,653	$ 42,332,817	$ 13,896,758	$ 509,925,712	$ 12,777,542

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. The accumulated vacation and pension liabilities will be paid by the fund for which the employee worked. Payments on the capital leases are made by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Original Issue	Bonds Outstanding July 1, 2016	Accreted Interest	Redeemed	Bonds Outstanding June 30, 2017
2007	8/1/32	$ 374,615	$ 671,541	$ 49,881	$ -	$ 721,422
2010	8/1/34	3,398,760	857,866	102,952	-	960,818
2010	8/1/23	13,490,000	3,390,000	-	655,000	2,735,000
2011	8/1/26	21,090,000	17,545,000	-	1,230,000	16,315,000
2011	8/1/20	14,640,000	8,645,000	-	1,825,000	6,820,000
2011	8/1/25	4,505,000	1,530,000	-	-	1,530,000
2011	8/1/27	490,086	780,946	79,634	-	860,580
2012	8/1/37	50,000,000	32,850,000	-	215,000	32,635,000
2013	8/1/27	35,485,000	35,485,000	-	-	35,485,000
2013	8/1/24	22,320,000	20,035,000	-	1,425,000	18,610,000
2014	8/1/38	99,995,000	92,235,000	-	6,180,000	86,055,000
2016	8/1/40	55,000,000	55,000,000	-	-	55,000,000
2016	8/1/34	25,090,000	25,090,000	-	105,000	24,985,000
		$ 345,878,461	$ 294,115,353	$ 232,467	$ 11,635,000	$ 282,712,820

Debt Service Requirements to Maturity

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	$ 10,685,000	$ 12,754,014	$ 23,439,014
2019	11,670,000	12,292,364	23,962,364
2020	7,920,000	11,865,614	19,785,614
2021	8,865,000	11,497,201	20,362,201
2022	9,540,000	11,099,676	20,639,676
2023-2027	63,992,761	47,777,079	111,769,840
2028-2032	52,585,927	34,521,382	87,107,309
2033-2037	63,047,615	20,701,281	83,748,896
2038-2041	53,255,000	4,080,375	57,335,375
Sub Total	281,561,303	$ 166,588,986	$ 448,150,289
Accretion to date	1,151,517		
Total	$ 282,712,820		

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Copiers
Balance, July 1, 2016	$ 163,969
Payments	90,982
Balance, June 30, 2017	$ 72,987

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2018	$ 72,987
Less: Amount Representing Interest	2,389
Present Value of Minimum Payments	$ 70,598

Accumulated Unpaid Compensated Absences

The total accumulated unpaid compensated absences for the District at June 30, 2017, amounted to $1,415,574.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 75,000	$ -	$ -	$ 1,959	$ 76,959
Stores inventories	47,610	-	-	65,715	113,325
Prepaid expenditures	341,422	-	-	514	341,936
Total Nonspendable	464,032	-	-	68,188	532,220
Restricted					
Educational programs	8,071,317	-	-	-	8,071,317
Capital projects	-	49,232,884	-	1,147,448	50,380,332
Debt services	-	-	21,055,274	-	21,055,274
Food services	-	-	-	598,482	598,482
Total Restricted	8,071,317	49,232,884	21,055,274	1,745,930	80,105,405
Assigned					
Program carryover	13,530,093	-	-	-	13,530,093
Total Assigned	13,530,093	-	-	-	13,530,093
Unassigned					
Reserve for economic uncertainties	11,146,559	-	-	-	11,146,559
Total Unassigned	11,146,559	-	-	-	11,146,559
Total	$ 33,212,001	$ 49,232,884	$ 21,055,274	$ 1,814,118	$ 105,314,277

NOTE 11 - RISK MANAGEMENT

Workers' Compensation and 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. Employee workers' compensation, dental and medical programs are administered by the Self-Insurance Fund. During fiscal year ending June 30, 2017, the District contracted with the Northern California RELIEF public entity risk pool for property and liability, fidelity and boiler insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Insurance Program / Company Name	Type of Coverage	Limits
Property and Liability		
North California ReLIEF	Property	$ 250,250,000
North California ReLIEF	Liability	$ 1,000,000
Protected Insurance Programs for Schools Joint Power Authority (PIPS)	Workers' Compensation	$ 155,000,000

Claims Liabilities

The District is self-insured for dental, medical and claims incurred for the workers' compensation program prior to the termination of workers' compensation self-insurance program in fiscal year 2006. The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

	Workers' Compensation	Dental	Medical	Total
Liability Balance, June 30, 2015	$ 2,306,131	$ 113,200	$ 821,430	$ 3,240,761
Claims and changes in estimates	277	163,352	4,398,677	4,562,306
Claims payments	(71,956)	(168,749)	(4,486,197)	(4,726,902)
Liability Balance, June 30, 2016	2,234,452	107,803	733,910	3,076,165
Claims and changes in estimates	(34,138)	(148,370)	(4,211,149)	(4,393,657)
Claims payments	17,753	164,814	4,224,429	4,406,996
Liability Balance, June 30, 2017	$ 2,218,067	$ 124,247	$ 747,190	$ 3,089,504

Assets available to pay claims at June 30, 2017 totaled $7,142,281.

NOTE 12 - 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	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 144,272,368	$ 39,421,031	$ 17,509,831	$ 14,362,707
CalPERS	52,749,736	20,561,020	6,998,054	6,688,198
Total	$ 197,022,104	$ 59,982,051	$ 24,507,885	$ 21,050,905

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: www.calstrs.com/member-publications.

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 contributes 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:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a precentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	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 $10,860,869.

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	$	144,272,368
State's proportionate share of the net pension liability associated with the District		82,131,686
Total	$	226,404,054

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 0.1784 percent and 0.1717 percent, resulting in a net increase in the proportionate share of 0.0067 percent.

For the year ended June 30, 2017, the District recognized pension expense of $14,362,707. In addition, the District recognized pension expense and revenue of $7,938,892 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	$ 10,860,869	$ -
Net change in proportionate share of net pension liability	4,256,419	(1,156,311)
Difference between projected and actual earnings on pension plan investments	24,303,743	(12,834,166)
Differences between expected and actual experience in the measurement of the total pension liability	-	(3,519,360)
Total	$ 39,421,031	$ (17,509,837)

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

Year Ended June 30,	Deferred Outflows of Resources
2018	250,228
2019	250,228
2020	6,667,308
2021	4,301,819
Total	$ 11,469,583

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

Year Ended June 30,	Deferred Outflows / (Inflows) of Resources
2018	$ (164,161)
2019	(164,161)
2020	(164,161)
2021	(164,161)
2022	(164,163)
2023	401,555
Total	$ (419,252)

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

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

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	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%)	$ 207,640,475
Current discount rate (7.60%)	$ 144,272,368
1% increase (8.60%)	$ 91,644,285

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a precentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.89%	13.89%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process.

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were $4,679,943.

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 $52,749,736. 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 0.2671 percent and 0.2670 percent, resulting in a net increase in the proportionate share of 0.0001 percent.

For the year ended June 30, 2017, the District recognized pension expense of $6,688,198. 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	$ 4,679,943	$ -
Net change in proportionate share of net pension liability	217,985	(203,954)
Difference between projected and actual earnings on pension plan investments	13,394,348	(5,209,285)
Differences between expected and actual experience in the measurement of the total pension liability	2,268,744	-
Changes of assumptions	-	(1,584,815)
Total	$ 20,561,020	$ (6,998,054)

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

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 1,148,064
2019	1,148,065
2020	3,752,706
2021	2,136,228
Total	$ 8,185,063

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

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 101,720
2019	345,971
2020	250,269
Total	$ 697,960

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%

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 78,702,900
Current discount rate (7.65%)	$ 52,749,736
1% increase (8.65%)	$ 31,138,620

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 as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $5,430,211, $5,476,692, and $4,157,705, for fiscal years ending June 30, 2017, 2016 and 2015 respectively (8.828 percent of 2016-2017, 7.126 percent of 2015-2016, and 5.541 percent of 2014-2015 annual payrolls). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded on the financial statements.

NOTE 13 - 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.

Construction Commitments

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

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Garden Gate	$ 28,153	8/31/2017
Lincoln	3,076	8/31/2017
Hyde	43,913	9/30/2017
Kennedy	3,160,142	12/31/2017
De Vargas	1,929,406	12/31/2017
Dilworth	1,872,465	12/31/2017
Miller	341,062	12/31/2017
Sedgwick	176,349	12/31/2017
Stevens Creek	44,362	12/31/2017
Stocklmeir	469,234	5/31/2018
Cupertino Middle School	4,006,921	6/30/2018
Montclaire	3,437,347	6/30/2018
Blue Hills	159,382	6/30/2018
Cupertino Union School District Office	208,147	12/31/2018
	$ 15,879,959	

Litigation

The district is involved in various litigations 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.

NOTE 14 - OPERATING LEASE REVENUE

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease revenues under these agreements are as follows:

June 30,	Lease Revenues
2018	$ 2,920,569
2019	2,629,967
2020	526,630
Total	$ 6,077,166

NOTE 15 - 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, the District's property tax revenues were reduced by $109,732 for the year ended June 30, 2017.

NOTE 16 - PARTICIPATION IN PUBLIC JOINT POWER AUTHORITIES

The District is a member of the Northern California ReLiEF joint powers authority. The District pays an annual premium to the Northern California ReLiEF JPA. The relationship between the District and the JPA is such that the JPA not component unit of the District for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the entity.
The District has appointed one member to the governing board of ReLiEF.

During the year ended June 30, 2017, the District made payments of $821,304 to ReLiEF for insurance coverage received.

REQUIRED SUPPLEMENTARY INFORMATION

CUPERTINO UNION SCHOOL DISTRICT

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

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Local control funding formula	$ 145,917,474	$ 147,793,839	$ 147,819,999	$ 26,160
Federal sources	4,108,290	4,730,416	4,090,524	(639,892)
Other state sources	16,381,510	15,414,293	15,594,642	180,349
Other local sources	21,209,293	21,649,037	20,336,181	(1,312,856)
Total Revenues	187,616,567	189,587,585	187,841,346	(1,746,239)
EXPENDITURES				
Current				
Certificated salaries	88,703,693	90,547,285	90,056,448	490,837
Classified salaries	33,581,525	33,974,193	33,966,580	7,613
Employee benefits	41,214,686	39,971,412	39,920,603	50,809
Books and supplies	8,963,824	11,689,585	6,650,731	5,038,854
Services and operating expenditures	17,466,703	17,023,858	14,699,782	2,324,076
Other outgo	118,816	707,882	(190,574)	898,456
Capital outlay	(74,005)	(91,514)	572,410	(663,924)
Debt service	-	-	99,056	(99,056)
Total Expenditures	189,975,242	193,822,701	185,775,036	8,047,665
Excess (Deficiency) of Revenues Over Expenditures	(2,358,675)	(4,235,116)	2,066,310	6,301,426
Other Financing Sources (Uses)				
Transfers in	2,453,509	2,638,500	2,638,500	-
Transfers out	-	(933)	(933)	-
Net Financing Sources	2,453,509	2,637,567	2,637,567	-
NET CHANGE IN FUND BALANCES	94,834	(1,597,549)	4,703,877	6,301,426
Fund Balance - Beginning	28,508,124	28,508,124	28,508,124	-
Fund Balance - Ending	$ 28,602,958	$ 26,910,575	$ 33,212,001	$ 6,301,426

See accompanying note to required supplementary information.

CUPERTINO UNION SCHOOL DISTRICT

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

Measurement Date, As of June 30,	2016	2015	2014
CalSTRS			
District's proportion of the net pension liability	0.1784%	0.1717%	0.1739%
District's proportionate share of the net pension liability	$ 144,272,368	$ 115,568,247	$ 101,611,807
State's proportionate share of the net pension liability associated with the District	82,131,686	61,122,863	61,357,596
Total	$ 226,404,054	$ 176,691,110	$ 162,969,403
District's covered payroll	$ 88,417,903	$ 82,554,422	$ 76,856,296
District's proportionate share of the net pension liability as a percentage of its covered - payroll	163.17%	139.99%	132.21%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.2671%	0.2670%	0.2642%
District's proportionate share of the net pension liability	$ 52,749,736	$ 39,353,507	$ 29,994,065
District's covered - payroll	$ 32,076,564	$ 30,455,001	$ 27,680,980
District's proportionate share of the net pension liability as a percentage of its covered - payroll	164.45%	129.22%	108.36%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

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

See accompanying note to required supplementary information.

CUPERTINO UNION SCHOOL DISTRICT

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

Fiscal Year End, June 30,	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 10,860,869	$ 9,448,353	$ 7,336,518
Contributions in relation to the contractually required contribution	(10,860,869)	(9,448,353)	(7,336,518)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - payroll	$ 86,675,128	$ 88,417,903	$ 82,554,422
Contributions as a percentage of covered - payroll	12.53%	10.69%	8.89%
CalPERS			
Contractually required contribution	$ 4,679,943	$ 3,807,253	$ 3,492,894
Contributions in relation to the contractually required contribution	(4,679,943)	(3,807,253)	(3,492,894)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered - payroll	$ 33,676,227	$ 32,076,564	$ 30,455,001
Contributions as a percentage of covered - payroll	13.90%	11.87%	11.47%

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

See accompanying note to required supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of 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 either the CalSTRS or CalPERS plans 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

CUPERTINO UNION SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I - Basic Grants Low-Income and Neglected	84.010	14329	$ 442,816
Title II - Improving Teacher Quality Local Grants	84.367	14341	217,512
Title III - Immigrant Education Program	84.365	15146	209,821
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	135,309
Special Education Cluster (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	2,622,406
Local Assistance, Private School	84.027	10115	115,247
Preschool Grants	84.173	13430	76,024
Preschool Local Entitlement	84.027A	13682	270,830
Preschool Staff Development	84.173A	13431	559
Total Special Education Cluster			3,085,066
Total U.S. Department of Education			4,090,524
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13391	547,682
School Breakfast Program	10.553	13390	38,643
Especially Needy Breakfast	10.559	13526	47,845
Commodity [1]	10.555	N/A	151,993
Total Child Nutrition Cluster			786,163
Total U.S. Department of Agriculture			786,163
Total Expenditures of Federal Awards			$ 4,876,687

[1] Amount not included in financial statement

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2017

ORGANIZATION

The Cupertino Union School District was organized in 1916 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and Federal agencies. The District operates twenty elementary and five middle schools.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Anjali Kausar	President	2018
Soma McCandless	Vice President	2018
Kristen Lyn	Clerk	2018
Phyllis Vogel	Member	2020
Liang Chao	Member	2020

ADMINISTRATION

Chris Jew and Stacy McAfee	Interim Co-Superintendents
Chris Jew	Chief Business Officer
Dorothy Reconose	Director of Fiscal Services

See accompanying note to supplementary information.

CUPERTINO UNION SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	7,696.39	7,707.99
Fourth through sixth	6,175.31	6,162.06
Seventh and eighth	4,359.88	4,353.36
Total Regular ADA	18,231.58	18,223.41
Extended Year Special Education		
Transitional kindergarten through third	8.77	8.77
Fourth through sixth	5.57	5.57
Seventh and eighth	2.90	2.90
Total Extended Year Special Education	17.24	17.24
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	-	0.18
Fourth through sixth	5.09	5.08
Seventh and eighth	2.48	2.42
Total Special Education, Nonpublic, Nonsectarian Schools	7.57	7.68
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.09	0.09
Fourth through sixth	0.61	0.61
Seventh and eighth	0.61	0.61
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	1.31	1.31
Total ADA	18,257.70	18,249.64

See accompanying note to supplementary information.

CUPERTINO UNION SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	55,695	180	Complied
Grades 1 - 3	50,400			
Grade 1		52,095	180	Complied
Grade 2		52,095	180	Complied
Grade 3		52,095	180	Complied
Grades 4 - 6	54,000			
Grade 4		56,145	180	Complied
Grade 5		56,145	180	Complied
Grade 6		55,805	180	Complied
Grades 7 - 8	54,000			
Grade 7		55,805	180	Complied
Grade 8		55,805	180	Complied

See accompanying note to supplementary information.

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

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

CUPERTINO UNION SCHOOL DISTRICT

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

	(Budget) 2018 [1]	2017	2016	2015
GENERAL FUND				
Revenues	$ 185,927,342	$ 187,841,346	$ 189,604,651	$ 163,479,309
Other sources and transfers in	2,493,509	2,638,500	2,494,960	2,761,956
Total Revenues and Other Sources	188,420,851	190,479,846	192,099,611	166,241,265
Expenditures	194,051,234	185,775,036	184,701,790	173,436,459
Other uses and transfers out	-	933	1,488	4,690
Total Expenditures and Other Uses	194,051,234	185,775,969	184,703,278	173,441,149
INCREASE (DECREASE) IN FUND BALANCE	$ (5,630,383)	$ 4,703,877	$ 7,396,333	$ (7,199,884)
ENDING FUND BALANCE	$ 27,581,618	$ 33,212,001	$ 28,508,124	$ 21,111,791
AVAILABLE RESERVES [2]	$ 11,643,075	$ 11,146,559	$ 11,541,098	$ 13,054,590
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	6.00%	6.00%	6.44%	7.71%
LONG-TERM OBLIGATIONS OTHER THAN PENSION	$ 300,126,066	$ 312,903,608	$ 326,567,899	$ 277,135,468
AVERAGE DAILY ATTENDANCE AT P-2	17,747	18,258	18,565	18,695

The General Fund balance has increased by $12,100,210 over the past two years. The fiscal year 2017-2018 budget projects a decrease of $5,630,383 (19.68 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have increased by $35,768,140 over the past two years. The increase is mainly due to issuance of Measure H bonds.

Average daily attendance has decreased by 437 over the past two years. A decrease of 511 ADA is anticipated during fiscal year 2017-2018.

[1] Budget 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 in the General Fund.

See accompanying note to supplementary information.

CUPERTINO UNION SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
ASSETS				
Deposits and investments	$ 8,438	$ 576,852	$ 1,179,808	$ 1,765,098
Receivables	10,555	20,399	3,001	33,955
Due from other funds	-	4,468	-	4,468
Prepaid expenses	-	514	-	514
Stores inventories	-	65,715	-	65,715
Total Assets	$ 18,993	$ 667,948	$ 1,182,809	$ 1,869,750
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 5,363	$ 1,278	$ 13,968	$ 20,609
Due to other funds	13,630	-	21,393	35,023
Total Liabilities	18,993	1,278	35,361	55,632
Fund Balances:				
Nonspendable	-	68,188	-	68,188
Restricted	-	598,482	1,147,448	1,745,930
Total Fund Balances	-	666,670	1,147,448	1,814,118
Total Liabilities and Fund Balances	$ 18,993	$ 667,948	$ 1,182,809	$ 1,869,750

See accompanying note to supplementary information.

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
REVENUES				
Federal sources	$ -	$ 634,170	$ -	$ 634,170
Other State sources	49,699	27,286	-	76,985
Other local sources	-	3,441,370	722,787	4,164,157
Total Revenues	49,699	4,102,826	722,787	4,875,312
EXPENDITURES				
Current				
Instruction	48,724	-	-	48,724
Pupil services:				
Food services	-	3,856,419	-	3,856,419
Administration:				
All other administration	975	189,595	21,393	211,963
Plant services	-	12,267	-	12,267
Facility acquisition and construction	-	-	320,164	320,164
Total Expenditures	49,699	4,058,281	341,557	4,449,537
Excess of Revenues Over Expenditures	-	44,545	381,230	425,775
Other Financing Sources				
Transfers in	-	933	-	933
Net Financing Sources	-	933	-	933
NET CHANGE IN FUND BALANCES	-	45,478	381,230	426,708
Fund Balance - Beginning	-	621,192	766,218	1,387,410
Fund Balance - Ending	$ -	$ 666,670	$ 1,147,448	$ 1,814,118

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have not been recorded in the current period.

Description	CFDA Number	Amount
Total Federal Revenues-Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 4,724,694
Commodities	10.555	151,993
Total Schedule of Expenditures of Federal Awards		$ 4,876,687

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

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 Balance Sheet and 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

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

Board of Trustees
Cupertino Union School District
Cupertino, 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 Cupertino Union 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 Cupertino Union School District's basic financial statements, and have issued our report thereon dated November 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cupertino Union 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 Cupertino Union School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cupertino Union School 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cupertino Union 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.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 2, 2017

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

Board of Trustees
Cupertino Union School District
Cupertino, California

Report on Compliance for Each Major Federal Program

We have audited Cupertino Union 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 Cupertino Union School District's (the District) major Federal programs for the year ended June 30, 2017. Cupertino Union 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 Cupertino Union School 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 Cupertino Union 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 Cupertino Union School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Cupertino Union 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 Cupertino Union 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 Cupertino Union 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 Cupertino Union 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.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 2, 2017

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Cupertino Union School District
Cupertino, California

Report on State Compliance

We have audited Cupertino Union 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 Cupertino Union 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 Cupertino Union 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 Cupertino Union School Districts 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 Cupertino Union School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Cupertino Union 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.

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

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
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
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

We did not perform testing for Independent Study because the ADA generated is below the testing threshold.

The District does not have a Continuation Education Program, an Early Retirement Incentive Program, Juvenile Court Schools, Middle or Early College High Schools, a Before or After School Education and Safety Program, a Course based Independent Study program, and independent charter schools; therefore, we did not perform procedures related to the these Programs.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 2, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CUPERTINO UNION SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

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

STATE AWARDS

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

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

None reported.

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

None reported.

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.