LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Gatos-Saratoga Joint Union High School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Gatos-Saratoga Joint Union High School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The accompanying supplementary information as listed in 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 15, 2018

This section of Los Gatos-Saratoga Union High School District's 2017-2018 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

PROFILE OF THE DISTRICT

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

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

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

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

FINANCIAL HIGHLIGHTS

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

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The General Fund expenditures per student in 2017-2018 were $17,135. This was an increase of $441 from last year's per student spending of $16,694 in 2016-2017.

The 2011-12 year marked the first year of parcel tax income. With the slow growth in property values and reduction in state categorical money through a basic aid "fair share" reduction, the governing board authorized a parcel tax election on May 3, 2011. The parcel tax passed with a 72 percent passage rate and became effective July 1, 2011. The parcel tax was reauthorized in May 2016, effective 7/1/2017 and sunsetting on 6/30/2025. The parcel tax generated $955,553 in 2017-18. The tax is $49 per parcel per year and a senior citizen exemption is available to seniors 65 years or older. A parcel tax oversight committee comprised of community members ensured that these funds were used for students and programs, in full compliance with voter authorized activities, and not for administrative salaries.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Statements

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

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

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliations between the governmental funds statements and the government-wide statements to better explain the relationship (or differences) between them.

- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that those to whom the assets belong use only for their intended purposes and the assets reported in these funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was $17,496,000 as of June 30, 2018. This table summarizes the District's net position. The net position in the current year increased due to the redemption of the long-term debt.

Los Gatos-Saratoga Joint Union High School District
Net Position
(in thousands of dollars)

	2018	(Restated) 2017	Net Change
Assets			
Current and other assets	$ 61,000	$ 84,958	$ (23,958)
Capital assets	125,213	99,768	25,445
Total Assets	186,213	184,726	1,487
Deferred Outlow of Resources			
Deferred outflows related to pensions	14,883	8,487	6,396
Liabilities			
Current liabilities	4,905	7,778	(2,873)
Long-term debt	118,946	129,980	(11,034)
Other postemployment benefits	4,673	4,131	542
Aggregate net pension liability	51,540	44,370	7,170
Total Liabilities	180,064	186,259	(6,195)
Deferred Inflow of Resources			
Deferred amounts on refunding	111	201	(90)
Deferred inflows related to pension	3,425	2,812	613
Total Deferred Inflow of Resources	3,536	3,013	523
Net Position			
Net investment in capital assets	41,936	26,321	15,615
Restricted	15,632	15,447	185
Unrestricted	(40,072)	(38,041)	(2,031)
Total Net Position	$ 17,496	$ 3,727	$ 13,769

Changes in Net Position

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

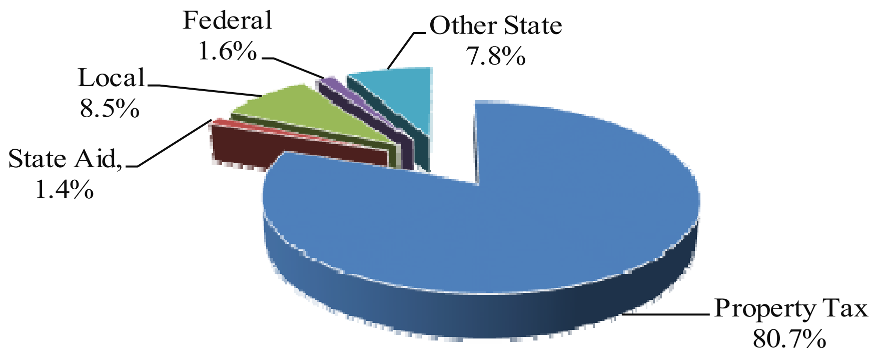
Los Gatos-Saratoga Joint Union High School District
Changes in Net Position
(in thousands of dollars)

	2018	2017	Net Change
Revenues			
Program revenues			
Charges for services	$ 15	$ -	$ 15
Grants and contributions	3,836	5,622	(1,786)
Property taxes	61,059	58,229	2,830
Other federal and state revenue	1,983	2,150	(167)
Other general revenues	4,778	1,319	3,459
Total Revenues	71,671	67,320	4,351
Expenses			
Instruction related	42,989	40,901	2,088
Pupil services	5,288	5,505	(217)
Administration	3,673	4,286	(613)
Plant Services	317	8,148	(7,831)
Other	5,632	5,315	317
Total Expenses	57,899	64,155	(6,256)
Change in Net Position	$ 13,772	$ 3,165	$ 10,607

FINANCIAL ANALYSIS OF THE DISTRICT'S GENERAL FUND

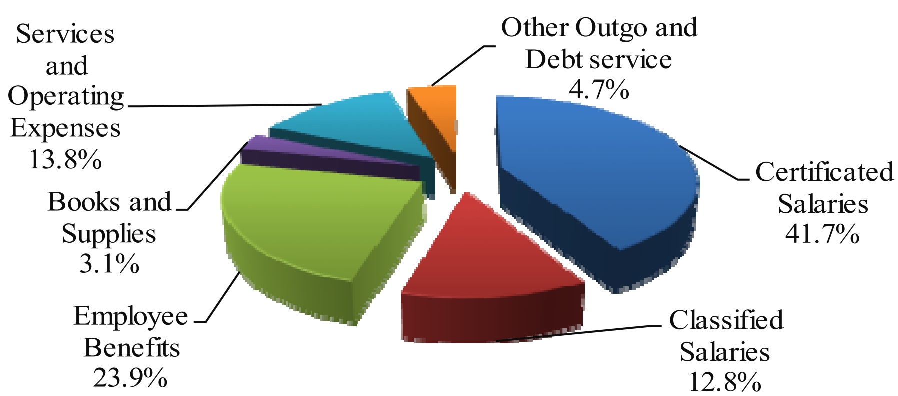
The District is community funded (also referred to as "basic aid"), which means that the District relies on local property taxes rather than State aid for the majority of its revenue. General Fund revenues for 2017-2018 excluding transactions related to the Special Revenue Fund for other than Capital Outlay Fund, increased by \$3,057,976 (5.7%) over the previous year. Local Control Funding Formula (LCFF) revenues increased by \$14,520 (1.8%). (Note: Other charts are incorporated in Adopted Budget on the District Web Page www.lgsuhsd.org.)

Los Gatos-Satatoga Joint Union High School District
General Fund Revenues
FY 2017-2018

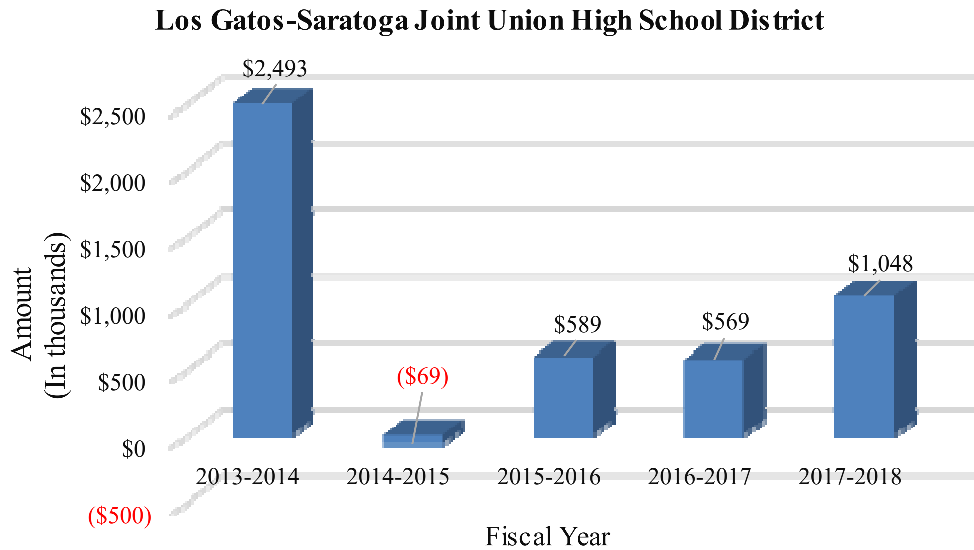


Expenditures increased by \$2,559,780 over the previous year. As is common with virtually all school districts, the vast majority of expenditures in the General Fund are for salaries and benefits. Of the total amount expended during 2017-2018, 78.4% was spent on salaries and benefits. See the chart below for a breakdown of General Fund expenditures.

Los Gatos-Saratoga Joint Union High School District
general Fund Expenditures by Object
FY 2017-2018



In the General Fund, excluding Special Reserves for other than Capital Outlay Fund, total revenues were $56.73 million and expenditures including transfer out were $56.25 million. This resulted in an ending fund balance of $1,047,932 . Of this amount, $555,266 is restricted or nonspendable and $19,787 is unassigned. The District's reserve level is 5.7%. The State requires reserves of 3% of General Fund expenditures and other uses. Available reserves are $3.2 million which come from our Special Reserve – Other Than Capital Outlay Fund. Although the available reserves exceed the state required minimum, these monies can only fund one-time expenditures and should not be used to support ongoing expenses.



General Fund Budgetary Highlights

Over the course of the year, the District revised the adopted budget with two interims and a final revised budget. Local property taxes bottomed out in 2011-12 and began a slow recovery. The District anticipates a 4.5% increase in property tax income in 2018-2019 (net of RDA funding).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2018, the District had invested $125 million in a wide range of capital assets, including school buildings, fields, computer equipment and vehicles. The net book value of total assets increased by $25 million from the prior year.

Los Gatos-Saratoga Joint Union High School District
Capital Assets at Year-End
(in thousands of dollars)

	2018	2017	Changes
Cost:			
Land	$ 49	$ 49	$ -
Construction in progress	29,602	22,808	6,794
Improvement of sites	11,446	11,056	390
Buildings and improvements	150,835	127,044	23,791
Equipment	2,576	2,704	(128)
	194,508	163,661	27,712
Accumulated Depreciation:			
Improvement of sites	1,242	674	568
Buildings and improvements	66,461	61,443	5,018
Equipment	1,592	1,776	(184)
	69,295	63,893	5,402
Net Book Value:			
Land	49	49	-
Construction in progress	29,602	22,808	6,794
Improvement of sites	10,204	10,382	(178)
Buildings and improvements	84,374	65,601	18,773
Equipment	984	928	56
	$ 125,213	$ 99,768	$ 25,445

Net Pension Liability (NPL)

The District implemented the provisions of GASB 68 in 2014-15, which required the District to recognize its proportionate share of the unfunded pension liability. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements in the amount of $51.54 million.

Total Other Postemployment Benefits (OPEB)

The District implemented the provisions of GASB 75 in 2017-18, which required the District to recognize its unfunded OPEB liability. As of June 30, 2018, the District reported $4.67 million in total OPEB liability. The District presents more detailed information regarding pension liability in Note 10.

Long-Term Obligations Other Than NPL and OPEB

This table provides a summary of the changes in long-term obligations for the year ended June 30, 2018. The District's long-term debt has decreased by $11.2 million. This was mainly due to a new $54 million general obligation bond issuance in the current fiscal year. Refer to Note 9 in the accompanying financial statements for additional information on long-term obligations.

Los Gatos-Saratoga Joint Union High School District
Outstanding Long-Term Debt at Year-End
(in thousands of dollars)

	2018	2017	Changes
Long-Term Debt Outstanding:			
General Obligation Bonds	$ 105,845	$ 114,990	$ (9,145)
Unamortized Bond Premium	8,116	9,015	(899)
Certificates of Participation	4,424	5,495	(1,071)
Unamortized COP Premium	101	132	(31)
Accumulated Vacation	282	299	(17)
OPSC Loan	178	262	(84)
	$ 118,946	$ 130,193	$ (11,247)

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District is very fortunate to be a community funded district and tracks assessed valuation growth closely to validate current budget projections and maintain conservative growth projections going forward. This audit is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District's Business Officer, Rosemarie Pottage, at 408-402-6325, Los Gatos-Saratoga Joint Union High School District, 17421 Farley Road West, Los Gatos, CA 95030, or rpottage@lgsuhsd.org.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 59,618,453
Receivables	1,362,364
Prepaid expenses	11,212
Stores inventories	8,291
Capital assets not being depreciated	29,650,797
Capital assets, net of accumulated depreciation	95,562,148
Total Assets	186,213,265
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	14,882,932
Total Deferred Outflows of Resources	14,882,932
LIABILITIES	
Accounts payable	3,162,295
Interest payable	1,466,125
Unearned revenue	276,449
Long-term obligations	
Current portion	11,988,144
Noncurrent portion	106,957,360
Other postemployment benefits	4,673,438
Aggregate net pension liability	51,540,114
Total Liabilities	180,063,925
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on refunding	110,550
Deferred inflows of resources related to pensions	3,425,059
Total Deferred Inflows of Resources	3,535,609
NET POSITION	
Net investment in capital assets	41,935,950
Restricted for:	
Debt service	12,450,191
Capital projects	2,636,519
Food services	12,791
Educational programs	532,904
Unrestricted	(40,071,692)
Total Net Position	$ 17,496,663

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Instruction	$ 36,646,128	$ 3,837	$ 2,936,401	$ (33,705,890)
Instruction related activities:				
Supervision of instruction	1,871,150	1,943	71,675	(1,797,532)
Instructional library, media and technology	946,669	22	10,366	(936,281)
School site administration	3,525,047	9	112,134	(3,412,904)
Pupil services:				
Home-to-school transportation	576,473	-	2,056	(574,417)
Food services	956,500	-	-	(956,500)
All other pupil services	3,754,632	869	593,832	(3,159,931)
General administration:				
Data processing	868,010	-	6,909	(861,101)
All other general administration	2,805,421	27	64,388	(2,741,006)
Plant services	317,164	665	2,059	(314,440)
Ancillary services	1,763,258	7,283	36,295	(1,719,680)
Community services	219,901	-	-	(219,901)
Enterprise services	144,513	-	-	(144,513)
Interest on long-term obligations	3,397,551	-	-	(3,397,551)
Other outgo	107,079	-	-	(107,079)
Total Governmental-Type Activities	$ 57,899,496	$ 14,655	$ 3,836,115	(54,048,726)

General revenues:	
Property taxes, levied for general purposes	45,766,016
Property taxes, levied for debt service	12,145,836
Taxes levied for other specific purposes	3,146,918
Federal and State aid not restricted for specific purpose	1,982,528
Interest and investment earnings	828,720
Miscellaneous	3,948,787
Subtotal, General Revenues	67,818,805
Change in Net Position	13,770,079
Net Position - Beginning (as restated)	3,726,584
Net Position - Ending	$ 17,496,663

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

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LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Deferred Maintenance Fund	Building Fund
ASSETS			
Deposits and investments	$ 4,099,604	$ 2,334	$ 37,349,152
Receivables	993,931	768	169,198
Due from other funds	531,415	527,140	-
Prepaid expenses	11,212	-	-
Stores inventories	-	-	-
Total Assets	$ 5,636,162	$ 530,242	$ 37,518,350
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,129,847	$ 4,945	$ 2,020,821
Due to other funds	2,140	522,409	-
Unearned revenue	242,516	-	-
Total Liabilities	1,374,503	527,354	2,020,821
Fund balances:			
Nonspendable	22,362	-	-
Restricted	532,904	-	35,497,529
Committed	-	2,888	-
Assigned	472,879	-	-
Unassigned	3,233,514	-	-
Total Fund Balances	4,261,659	2,888	35,497,529
Total Liabilities and Fund Balances	$ 5,636,162	$ 530,242	$ 37,518,350

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

Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ 2,245,514	$ 13,874,779	$ 2,047,070	$ 59,618,453
96,048	41,537	60,882	1,362,364
-	-	-	1,058,555
-	-	-	11,212
-	-	8,291	8,291
$ 2,341,562	$ 13,916,316	$ 2,116,243	$ 62,058,875
$ 900	$ -	$ 5,782	$ 3,162,295
534,006	-	-	1,058,555
11,975	-	21,958	276,449
546,881	-	27,740	4,497,299
-	-	11,141	33,503
1,794,681	13,916,316	843,488	52,584,918
-	-	1,233,874	1,236,762
-	-	-	472,879
-	-	-	3,233,514
1,794,681	13,916,316	2,088,503	57,561,576
$ 2,341,562	$ 13,916,316	$ 2,116,243	$ 62,058,875

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

Total Fund Balance - Governmental Funds		**$ 57,561,576**
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	194,507,697	
Accumulated depreciation is	(69,294,752)	
Net Capital Assets		125,212,945
In governmental funds, interest on long-term obligations is recognized in the period when it is paid. On the government-wide statements, interest on long-term obligations is recognized as it accrues.		(1,466,125)
Long-term liabilities are not recognized on the governmental funds but are recorded on the statement of net position:		
Bonds payable	(113,961,156)	
COPs payable	(4,524,632)	
State school building loan	(178,186)	
Compensated absences (vacations)	(281,530)	
Total other postemployment benefits (OPEB) liability	(4,673,438)	
Net pension liability and related deferral	(40,082,241)	
Deferrals related to refunding	(110,550)	
Total Long-Term Obligations		(163,811,733)
Total Net Position - Governmental Activities		**$ 17,496,663**

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

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LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	General Fund	Deferred Maintenance Fund	Building Fund
REVENUES			
Local control funding formula	$ 46,567,974	$ -	$ -
Federal sources	893,076	-	-
Other state sources	4,434,112	-	879
Other local sources	4,862,940	3,038	693,578
Total Revenues	56,758,102	3,038	694,457
EXPENDITURES			
Current			
Instruction	31,939,120	-	-
Instruction related activities:			
Supervision of instruction	1,632,918	-	-
Instructional library, media and technology	825,803	-	-
School site administration	3,069,849	-	-
Pupil Services:			
Home-to school transportation	506,347	-	-
Food services	-	-	-
All other pupil services	4,150,933	-	-
General administration:			
Data processing	755,271	-	-
All other general administration	3,303,392	-	-
Plant services	5,613,187	1,053,910	-
Ancillary services	1,533,329	-	-
Community services	191,575	-	-
Other outgo	107,079	-	-
Enterprise services	127,146	-	-
Capital Outlays	62,449	-	21,844,952
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	53,818,398	1,053,910	21,844,952
Excess (Deficiency) of Revenues Over Expenditures	2,939,704	(1,050,872)	(21,150,495)
Other Financing Sources (Uses):			
Transfers in	-	700,000	-
Other sources	-	-	-
Transfers out	(2,432,085)	-	-
Net Financing Sources (Uses)	(2,432,085)	700,000	-
NET CHANGE IN FUND BALANCES	507,619	(350,872)	(21,150,495)
Fund Balances - Beginning	3,754,040	353,760	56,648,024
Fund Balances - Ending	$ 4,261,659	$ 2,888	$ 35,497,529

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

Special Reserve Capital Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 46,567,974
-	-	-	893,076
-	37,879	-	4,472,870
556,616	12,245,591	922,307	18,724,416
556,616	12,283,470	922,307	70,658,336
-	-	-	31,939,120
-	-	-	1,632,918
-	-	-	825,803
-	-	-	3,069,849
-	-	-	506,347
-	-	841,556	841,556
-	-	-	4,150,933
-	-	-	755,271
-	-	-	3,303,392
25,340	-	-	6,692,437
-	-	-	1,533,329
-	-	-	191,575
-	-	-	107,079
-	-	-	127,146
-	-	-	21,907,401
3,865,000	9,145,000	348,791	13,358,791
248,563	4,048,270	70,011	4,366,844
4,138,903	13,193,270	1,260,358	95,309,791
(3,582,287)	(909,800)	(338,051)	(24,651,455)
1,990,951	-	240,899	2,931,850
3,059,000	-	-	3,059,000
-	-	(499,765)	(2,931,850)
5,049,951	-	(258,866)	3,059,000
1,467,664	(909,800)	(596,917)	(21,032,801)
327,017	14,826,116	2,685,420	78,594,377
$ 1,794,681	$ 13,916,316	$ 2,088,503	$ 57,561,576

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		**$ (21,032,801)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, the costs are capitalized for the government-wide statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay exceeds depreciation in the period.		
Capital outlays	$ 31,237,172	
Depreciation expense	(5,751,470)	25,485,702
(Loss)/gain on disposal of capital assets is reported in the government-wide statement of net position, but is not recorded in the governmental funds.		(40,415)
In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (the amounts actually paid). Vacation amounts earned were less than the amounts used.		17,913
Proceeds received from the issuance of Certificates of Participation including a net of cost of issuance of $100,154 is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net position and does not affect the statement of activities.		(3,059,000)
Payment of the refunded Certificates of Participation is an expenditure in the government funds, but it decreases long-term liabilities in the statement of net position and does not affect the statement of activities.		3,335,000
Repayment of state loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		83,791

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	9,145,000
Repayment of certificates of participation is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	795,000
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows,deferred inflows and net pension liability during the year.	(1,386,942)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest expense reported in the governmental funds statements is the net result of these two factors.	(51,414)
Amortization of premium is not recorded in the governmental funds, but they impact the statement of activities.	929,866
Amortization of gain or loss on refunding is not recorded in the governmental funds, but is amortized over the life of the bond in the statement of activities.	90,841
Contributions to the retiree benefits fund are recorded as expenditures in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the statement of activities as an expense. The actual amount of the contribution was less then the cost incurred.	(542,462)
Change in Net Position of Governmental Activities	**$ 13,770,079**

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

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Scholarship Trust	Agency Fund
ASSETS		
Deposits and investments	$ 423,601	$ 1,168,593
Receivables	1,787	-
Total Assets	425,388	$ 1,168,593
LIABILITIES		
Due to student groups	-	$ 1,168,593
Total Liabilities	-	$ 1,168,593
NET POSITION		
Restricted for scholarships	425,388	
Total Net Position	$ 425,388	

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Scholarship Trust
ADDITIONS	
Interest	$ 6,046
CHANGE IN NET POSITION	6,046
Net Position - Beginning	419,342
Net Position - Ending	$ 425,388

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Los Gatos-Saratoga Joint Union High School District (District) was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades nine through twelve as mandated by the State of California. The District operates two high schools and one alternative program.

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

Component Units

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

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

Basis of Presentation - Fund Accounting

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

Governmental Funds

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

Major Governmental Funds

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (Education Code Section 17582).

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.

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

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

Non-Major Governmental Funds

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

Cafeteria Fund The Cafeteria Fund is used to account separately for 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).

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

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

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

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

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

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

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

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

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

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

Revenues - Exchange and Non-Exchange Transactions

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

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

Unearned Revenue

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

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

Expenses/Expenditures

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

Deposits

The District's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of $5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as expenditures of the funds.

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

Debt Issuance Costs, Premiums and Discounts

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the current year pension activities.

In addition to liabilities, the Statement of Net 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 deferred charges for pension related items.

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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, related deferred outflows and inflows of resources, and OPEB expense, the District recognizes benefit payments when due and payable in accordance with the benefit terms. The assumptions used are the most common assumptions used in actuarial cost calculations. Changes in assumptions, projected and actual investments, and expected and actual experience will be deferred throughout the expected average remaining service lives.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2017-2018, 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 their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Interfund transfers are eliminated in the governmental columns of the statement of activities.

Estimates

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

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

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

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

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

New Accounting Pronouncements Effective in Future Fiscal Years

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

In June 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The District has not determined the effect of the statement.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. 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, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	$ 59,618,453
Fiduciary funds	1,592,194
Total Deposits and Investments	$ 61,210,647

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

Cash on hand and in banks	$ 1,178,210
Cash in revolving	14,000
Investments	60,018,437
Total Deposits and Investments	$ 61,210,647

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The pool is not registerred with Security Exchange Committee.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool.

The District monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. The weighted average maturity of the Santa Clara County Pool was 479 days on June 30, 2018.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measure by the assignment of a rating by a nationally recognized statistical rating organization. The Santa Clara County Investment Pool was unrated on June 30, 2018.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. As of June 30, 2018, the District's bank balance in the amount of $816,463 was exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

Uncategorized - Investments in the County Treasury Investment Pool and money market mutual funds are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share. The District invests its entire fund in Santa Clara County Treasury.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consist of the following:

	General Fund	Deferred Maintenance Fund	Building Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Fiduciary Funds
Federal Government								
Categorical aid	$ 274,533	$ -	$ -	$ -	$ -	$ 919	$ 275,452	$ -
State Government								
Categorical aid	130,428	-	-	-	-	-	130,428	-
Lottery	139,658	-	-	-	-	-	139,658	-
Local Government								
Interest	38,987	768	169,198	939	41,537	8,902	260,331	1,787
Other local	410,325	-	-	95,109	-	51,061	556,495	-
Total	$ 993,931	$ 768	$ 169,198	$ 96,048	$ 41,537	$ 60,882	$ 1,362,364	$ 1,787

All receivables are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 48,953	$ -	$ -	$ 48,953
Construction in progress	22,807,582	20,825,632	14,031,370	29,601,844
Total Capital Assets Not Being Depreciated	22,856,535	20,825,632	14,031,370	29,650,797
Capital Assets Being Depreciated:				
Land improvements	11,055,755	390,270	-	11,446,025
Buildings and improvements	127,044,041	23,791,057	-	150,835,098
Furniture and equipment	2,704,220	261,583	390,026	2,575,777
Total Capital Assets Being Depreciated	140,804,016	24,442,910	390,026	164,856,900
Total Capital Assets	163,660,551	45,268,542	14,421,396	194,507,697
Less Accumulated Depreciation:				
Land improvements	673,937	567,915	-	1,241,852
Buildings and improvements	61,443,445	5,017,865	-	66,461,310
Furniture and equipment	1,775,511	165,690	349,611	1,591,590
Total Accumulated Depreciation	63,892,893	5,751,470	349,611	69,294,752
Governmental Activities Capital Assets, Net	$ 99,767,658	$ 39,517,072	$ 14,071,785	$ 125,212,945

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

Governmental Activities	
Instruction	$ 3,305,705
Supervision of instruction	169,007
Instructional library, media, and technology	85,471
School site administration	317,730
Home-to-school transportation	52,407
Food services	87,101
All other pupil services	429,622
Enterprise activities	158,700
All other general administration	19,828
Data processing	13,160
Plant maintenance and operations	341,900
Ancillary services	78,171
Community services	692,668
Total Depreciation Expenses Governmental Activities	$ 5,751,470

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due to/Due from)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund Receivables/Payables (Due to/Due from) for the year ended June 30, 2018, consisted of the following:

	Due From		
Due To	General Fund	Deferred Maintenance Fund	Total
General Fund	$ -	$ 2,140	$ 2,140
Deferred Maintenance Fund	522,409	-	522,409
Special Resource - Capital Outlay	9,006	525,000	534,006
Total	$ 531,415	$ 527,140	$ 1,058,555

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfer In			
Transfer Out	Deferred Maintenance Fund	Special Reserve Capital Outlay Funds	Non-Major Governmental Funds	Total
General Fund	$ 700,000	$ 1,491,186	$ 240,899	$ 2,432,085
COP Debt Services Fund	-	499,765	-	499,765
Total	$ 700,000	$ 1,990,951	$ 240,899	$ 2,931,850

General fund contirbuted to cafeteria fund to cover the deficit spending.	$ 240,899
General fund transferred to Deferred Maintenance Fund to fund the maintenance projects.	700,000
Genreal fund transferred to Special Reserve-Capital Outlay fund to cover Certificates of Participation debt serves payments.	1,491,186
COP Debt Services fund transferred to Special Reserve-Capital Outlay fund to close out the COP Debt Services fund.	499,765
Total	$ 2,931,850

NOTE 7 - DEFERRED AMOUNTS ON REFUNDING

Deferred inflows of resources are an acquisition of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of $41,935,950 includes the effect of deferring the recognition of gain of $110,550 from advance refunding. The gain will be recognized as revenue and as an increase in net position over the remaining life of related bonds.

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Deferred gain on refunding	$ 242,770	$ -	$ 98,955	$ 143,815
Deferred loss on refunding	(41,379)	-	(8,114)	(33,265)
Total	$ 201,391	$ -	$ 90,841	$ 110,550

NOTE 8 - ACCOUNTS PAYABLE

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

	General Fund	Deferred Maintenance	Special Reserve Capital Outlay Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 1,049,944	$ 4,945	$ 900	$ 2,020,821	$ 5,782	$ 3,082,392
State apportionment	75,615	-	-	-	-	75,615
Salaries and benefits	4,288	-	-	-		4,288
Total	$ 1,129,847	$ 4,945	$ 900	$ 2,020,821	$ 5,782	$ 3,162,295

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, 2017	Additions	Deductions/ Defeased	Balance June 30, 2018	Due in One Year
GOB	$ 114,990,000	$ -	$ 9,145,000	$ 105,845,000	$ 10,085,000
GOB premiums	9,014,574	-	898,418	8,116,156	898,418
COP	5,495,000	3,059,000	4,130,000	4,424,000	886,000
COP premiums	132,080	-	31,448	100,632	31,448
Accumulated vacation	299,443	-	17,913	281,530	-
OPSC loan	261,977	-	83,791	178,186	87,278
Total	$ 130,193,074	$ 3,059,000	$ 14,306,570	$ 118,945,504	$ 11,988,144

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

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued	Redeemed	Bonds Outstanding June 30, 2018
2012	2023	2.0-3.0%	$ 9,785,000	$ 6,485,000	$ -	$ 795,000	$ 5,690,000
2014	2044	2.0-5.0%	45,000,000	38,525,000	-	375,000	38,150,000
2014	2019	2.0-4.0%	27,185,000	15,980,000	-	5,955,000	10,025,000
2016	2036	2.0-4.0%	54,000,000	54,000,000	-	2,020,000	51,980,000
				$ 114,990,000	$ -	$ 9,145,000	$ 105,845,000

Bond Debt Service Requirements to Maturity

The bonds mature through 2044 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 10,085,000	$ 3,702,900	$ 13,787,900
2020	6,830,000	3,412,500	10,242,500
2021	2,345,000	3,268,600	5,613,600
2022	2,555,000	3,205,425	5,760,425
2023	2,795,000	3,130,750	5,925,750
2024-2028	13,635,000	14,243,775	27,878,775
2029-2033	20,465,000	11,261,850	31,726,850
2034-2038	26,175,000	6,347,375	32,522,375
2039-2043	13,760,000	2,904,800	16,664,800
2044-2044	7,200,000	293,400	7,493,400
Total	$ 105,845,000	$ 51,771,375	$ 157,616,375

Office of Public Schools Construction Loan

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

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

Year Disbursed	Interest Rate	Original Issue	Balance July 1, 2017	Interest Charge	Repayment and State Credit Current Year	Outstanding June 30, 2018
2008	4.161%	$ 761,916	$ 261,977	$ -	$ 83,791	$ 178,186

OPSC Construction Loan Debt Service Requirements to Maturity

The bonds mature through 2020 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 87,277	$ 7,414	$ 94,691
2020	90,909	3,783	94,692
Total	$ 178,186	$ 11,197	$ 189,383

Certificates of Participation

On August 1, 2008, the District issued two certificates of participation (COP) totaling $7,070,000. These certificates of participation were issued to finance the cost of a high school technology project, school sports facilities improvements, and construction of administrative and commercial office space. During the year, the District issued a 2017 refunding certificates of participation (refunding certificates) in the amount of $3,059,000 with interest ranging from 2.0 to 2.5 percent to refund $3,335,000 of these two COPs. As of June 30, 2018, these two COPs were paid off and the principal outstanding of the refunding certificates was $3,059,000.

On October 18, 2012, the District issued refunding certificates of participation in the amount of $2,845,000 with interest ranging from 2.0 to 5.0 percent to refund $2,950,000 of outstanding 2001 certificates of participation. As of June 30, 2018 the principal outstanding was $1,365,000.

The certificates mature through 2024 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 886,000	$ 105,189	$ 991,189
2020	904,000	84,102	988,102
2021	925,000	59,077	984,077
2022	954,000	29,830	983,830
2023	606,000	8,950	614,950
2024	149,000	1,475	150,475
Total	$ 4,424,000	$ 288,623	$ 4,712,623

Accumulated Vacation

The long-term portion of accumulated vacation for the District at June 30, 2018 amounted to $281,530.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Administration

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

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	38
Active employees	267
Total	305

Benefits Provided

The Plan provides medical dental and vision insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

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

Classified and Management					Annual Premium Increases 10% or Less		Annual Premium Increases more than 10%	
Hire Date	Retirement Age	Years of Full Time Service	Plan Pays	Retiree Pays	Plan Pick up	Retiree Pick up	Plan Pick up	Retire Pick up
	55	10	75%	25%	Half	Half	5% increase	Remainder
	56	10	80%	20%	Half	Half	5% increase	Remainder
	57	10	85%	15%	Half	Half	5% increase	Remainder
	58	10	90%	10%	Half	Half	5% increase	Remainder
	59	10	95%	5%	Half	Half	5% increase	Remainder
	60-64	10	100%	0%	Half	Half	5% increase	Remainder

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the various represented groups, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017-2018, the District contributed $127,146 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of $4,673,438 was measured and determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.80 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.00 percent for 2018

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 4,130,976
Service cost	492,200
Interest	163,912
Benefit payments	(113,650)
Net change in total OPEB liability	542,462
Balance at June 30, 2018	$ 4,673,438

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (4.8 percent) than the current discount rate:

Discount Rate	Net OPEB Liability
1% decrease (2.8%)	$ 4,996,972
Current discount rate (3.8%)	4,673,438
1% increase (4.8%)	4,365,077

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3 percent) or 1-percentage-point higher (5 percent) than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (3%)	$ 4,467,426
Current healthcare cost trend rate (4%)	4,673,438
1% increase (5%)	4,809,881

OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of $542,462. The amount was recorded in the Statement of Activities.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Deferred Maintenance	Building Fund	Special Reserve Capital Outlay	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable							
Revolving cash	$ 11,150	$ -	$ -	$ -	$ -	$ 2,850	$ 14,000
Stores inventories	-	-	-	-	-	8,291	8,291
Prepaid expenditures	11,212	-	-	-	-	-	11,212
Total Nonspendable	22,362	-	-	-	-	11,141	33,503
Restricted							
Educational program	532,904	-	-	-	-	-	532,904
Food program	-	-	-	-	-	1,650	1,650
Capital projects	-	-	35,497,529	1,794,681	-	841,838	38,134,048
Debt services	-	-	-	-	13,916,316	-	13,916,316
Total Restricted	532,904	-	35,497,529	1,794,681	13,916,316	843,488	52,584,918
Committed							
Deferred maintenance program	-	2,888	-	-	-	-	2,888
OPEB	-	-	-	-	-	1,233,874	1,233,874
Total Committed	-	2,888	-	-	-	1,233,874	1,236,762
Assigned							
Textbook adoptions	472,879	-	-	-	-	-	472,879
Unassigned							
Reserve for economic uncertainties	3,233,514	-	-		-	-	3,233,514
Total Fund Balance	$ 4,261,659	$ 2,888	$ 35,497,529	$ 1,794,681	$ 13,916,316	$ 2,088,503	$ 57,561,576

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District participated in the South Bay Area Schools' Insurance Authority (SBASIA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation

For fiscal year 2018, the District participated in the Santa Clara County Schools' Insurance Group (SCCSIG) and South Bay Area Schools' Insurance Authority (SBASIA), insurance purchasing pools. The intent of the SCCSIG and SBASIA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SCCSIG and SBASIA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SCCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings for both agencies are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the agencies. Participation in the agencies is limited to districts that can meet their selection criteria.

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

Insurance Program / Company Name	Type of Coverage		Limits
Santa Clara County School Insurance Group	Workers' Compensation	$	1,000,000
South Bay Area School's Insurance Authority	Liability (includes General liability, Auto liability and Errors & omissions)	$	55,000,000
	Property	$	5,000,000
	Crime	$	250,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 39,473,161	$ 11,306,750	$ 2,717,609	$ 3,780,802
CalPERS	12,066,953	3,576,182	707,450	1,921,354
Total	$ 51,540,114	$ 14,882,932	$ 3,425,059	$ 5,702,156

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRS 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 percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.20%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $3,351,345.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	$ 39,473,161
State's proportionate share of the net pension liability associated with the District	23,351,989
Total	$ 62,825,150

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0427 percent and 0.0419 percent, resulting in a net increase in the proportionate share of 0.0008 percent.

For the year ended June 30, 2018, the District recognized pension expense of $3,780,802. In addition, the District recognized pension expense and revenue of $2,350,602 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurment date	$ 3,351,345	$ -
Net differences between projected and actual earnings on plan investments	-	1,051,280
Differences between expected and actual experience	145,976	688,440
Adjustment due to differences in assumption	7,312,864	-
Adjustment due to differences in proportionate share	496,565	977,889
Total	$ 11,306,750	$ 2,717,609

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

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

Year Ended June 30,	Deferred Inflows of Resources	Deferred Outflows of Resources
2019	$ (874,103)	$ 2,211,481
2020	661,415	2,211,481
2021	95,386	1,959,314
2022	(933,978)	(233,719)
2023	-	33,428
2024	-	107,091
Total	$ (1,051,280)	$ 6,181,985

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 57,959,132
Current discount rate (7.10%)	$ 39,473,161
1% increase (8.10%)	$ 24,470,543

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan(s) regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $963,869.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $12,066,953. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0505 percent and 0.0530 percent, resulting in a net decrease in the proportionate share of 0.0024 percent.

For the year ended June 30, 2018, the District recognized pension expense of $1,921,354. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurment date	$ 963,869	$ -
Differences between projected and actual earnings on plan investments	417,435	-
Adjustment due to changes in assumptions	1,762,568	142,073
Differences between expected and actual experience	432,310	-
Adjustment due to differences in proportionate share	-	565,377
Total	$ 3,576,182	$ 707,450

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

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ (11,311)	$ 461,342
2020	481,628	508,205
2021	175,704	517,881
2022	(228,586)	-
Total	$ 417,435	$ 1,487,428

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.
The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 14,894,848
Current discount rate (7.15%)	$ 12,066,953
1% increase (8.15%)	$ 5,893,112

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $1,899,017, $1,601,294 and $1,378,041 for 2017-18, 2016-17 and 2015-16, respectively (9.328 percent, 8.578 percent and 7.126 percent of 2017-18, 2016-17 and 2015-16 annual payroll, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Social Security

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

As of June 30, 2018, the District had approximately $5.31 million commitments with respect to the unfinished capital projects.

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

The District is a member of the South Bay Area Schools' Insurance Authority, the Santa Clara County Schools' Insurance Group, Metro Ed and West Valley Transportation joint powers authorities JPA's. The District pays an annual premium to the applicable risk pool for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made the following payments:

South Bay Area Schools' Insurance Authority	$ 227,844
Santa clara County Schools' Insurance Group	382,896
Metro Ed	103,536
West Valley Transportation JPA	57,891
Total	$ 772,167

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Net Position - Beginning		$ 3,939,318
OPEB liability - beginning	$ 3,918,242	
OPEB liability - beginning after adoption of GASB 75	4,130,976	
Net increase in beginning OPEB liability		(212,734)
Restated Net Position - Beginning		$ 3,726,584

REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	GAAP Basis	to Actual
REVENUES				
Local control funding formula	$ 46,262,529	$ 46,534,802	$ 46,567,974	$ 33,172
Federal sources	816,200	831,633	893,076	61,443
Other state sources	3,292,096	4,242,150	4,434,112	191,962
Other local sources	3,529,516	4,846,535	4,833,814	(12,721)
Total Revenues	53,900,341	56,455,120	56,728,976	273,856
EXPENDITURES				
Current				
Certificated salaries	23,027,576	23,200,059	23,472,962	(272,903)
Classified salaries	7,220,764	7,301,645	7,218,685	82,960
Employee benefits	13,705,010	13,324,898	13,444,187	(119,289)
Books and supplies	1,673,703	2,981,689	1,730,968	-
Services and operating expenditures	6,642,292	7,599,250	7,740,741	(141,491)
Other outgo	1,667,043	1,662,489	107,079	1,555,410
Capital outlay	60,000	50,000	103,776	(53,776)
Total Expenditures	53,996,388	56,120,030	53,818,398	1,050,911
Excess (Deficiency) of Revenues Over Expenditures	(96,047)	335,090	2,910,578	1,324,767
Other Financing Sources (Uses):				
Transfers out	-	-	(2,432,085)	(2,432,085)
NET CHANGE IN FUND BALANCES	(96,047)	335,090	478,493	(1,107,318)
Fund Balance - Beginning	569,439	569,439	569,439	-
Fund Balance - Ending	$ 473,392	$ 904,529	1,047,932	$ (1,107,318)
Special Reserve for other than Capital Outlay Fund			3,213,727	
Fund Balance - Ending, GAAP Basis			$ 4,261,659	

See accompanying note to required supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	GAAP Basis	to Actual
REVENUES				
Other local sources	$ 1,500	$ -	$ 3,038	$ 3,038
EXPENDITURES				
Current				
Books and supplies	-	-	9,701	-
Services and operating expenditures	175,000	175,000	1,001,397	(826,397)
Capital outlay	-	-	42,812	(42,812)
Total Expenditures	175,000	175,000	1,053,910	(869,209)
Excess (Deficiency) of Revenues Over Expe	(173,500)	(175,000)	(1,050,872)	(866,171)
Other Financing Sources (Uses):				
Transfers in	175,000	-	700,000	700,000
NET CHANGE IN FUND BALANCES	1,500	(175,000)	(350,872)	(166,171)
Fund Balance - Beginning	353,760	353,760	353,760	-
Fund Balance - Ending	$ 355,260	$ 178,760	$ 2,888	$ (166,171)

See accompanying note to required supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	2018
Total OPEB Liabilities	
Service cost	$ 492,200
Interest	163,912
Benefit payments	(113,650)
Net change in total OPEB liability	542,462
Total OPEB liability - beginning	4,130,976
Total OPEB liability - ending	$ 4,673,438
Covered-employee payroll	$ 31,113,964
District's net OPEB liability as a percentage of covered-employee payroll	15.02%

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

See accompanying note to required supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

MEASUREMENT DATE, JUNE 30,	2017	2016	2015	2014
CalSTRS				
District's proportion of the net pension liability	0.0427%	0.0419%	0.0434%	0.0440%
District's proportionate share of the net pension liability	$ 39,473,161	$ 33,909,258	$ 29,219,390	$ 25,705,965
State's proportionate share of the net pension liability associated with the District	23,351,989	19,303,936	15,453,836	15,522,372
Total	$ 62,825,150	$ 53,213,194	$ 44,673,226	$ 41,228,337
District's covered payroll	$ 22,478,616	$ 21,401,597	$ 18,666,913	$ 19,338,506
District's proportionate share of the net pension liability as a percentage of its covered payroll	176%	158%	157%	133%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
District's proportion of the net pension liability	0.0505%	0.0530%	0.05620%	0.05700%
District's proportionate share of the net pension liability	$ 12,066,953	$ 10,460,780	$ 8,282,421	$ 6,473,959
District's covered - payroll	$ 6,411,543	$ 6,382,996	$ 6,400,065	$ 5,935,341
District's proportionate share of the net pension liability as a percentage of its covered payroll	188%	164%	129%	109%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

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

See accompanying note to required supplementary information.

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

FISCAL YEAR ENDED, JUNE 30,	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	$ 3,351,345	$ 2,827,584	$ 2,296,092	$ 1,836,512
Contributions in relation to the contractually required contribution	3,351,345	2,827,584	2,296,092	1,836,512
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 23,294,007	$ 22,478,616	$ 21,401,597	$ 18,666,913
Contributions as a percentage of covered payroll	14%	13%	11%	10%
CalPERS				
Contractually required contribution	$ 963,869	$ 890,435	$ 756,193	$ 732,295
Contributions in relation to the contractually required contribution	963,869	890,435	756,193	732,295
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 6,280,242	$ 6,411,543	$ 6,382,996	$ 6,400,065
Contributions as a percentage of covered payroll	15%	14%	12%	11%

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

See accompanying note to required supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule(s)

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

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

At June 30, 2018, the expenditures of Deferred Maintenance fund exceeded its budget in the amount of $866,171.

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

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

Change in Benefit Terms – There were no changes in benefit terms since the previous valuations.

Change in Assumptions – There were no changes in benefit terms since the previous valuations.

Schedule of District Contributions for OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

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

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

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

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of District Contributions for Pension

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

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

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Title I - Basic	84.010	14981		$ 56,079
Special Education Cluster				
Basic Local Assistance	84.027	13379	$ 546,766	
Mental Health Allocation	84.027A	14468	221,509	
Total Special Education Cluster				768,275
Technology II C, Section 131	84.048	14894		30,058
Title II Teacher Quality	84.367	14341		38,664
Total Expenditures of Federal Awards				$ 893,076

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Los Gatos-Saratoga Joint Union High School District (the District) was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades nine through twelve as mandated by the State of California. The District operates two high school and one alternative education program.

GOVERNING BOARD

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

ADMINISTRATION

NAME	TITLE
Bob Mistele	Superintendent/ Board Secretary
Rosemarie Pottage	Chief Business Officer

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Second Period Report	Annual Report
SECONDARY		
Regular classes - ninth through twelfth	3,268.37	3,265.58
Special education - nonpublic	8.16	8.44
Extended year special education - nonpublic	0.27	0.27
Total Secondary	3,276.80	3,274.29

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Status
Grade 9	64,800	65,350	180	Complied
Grade 10	64,800	65,350	180	Complied
Grade 11	64,800	65,350	180	Complied
Grade 12	64,800	65,350	180	Complied

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

	General Fund	Special Reserve Other Fund	Special Reserve Capital Fund
Balances, June 30 2018, Unaudited Actual	$ 1,047,932	$ 3,213,727	$ 5,157,938
Special Reserves Other Fund is consolidated into the General Fund	3,213,727	(3,213,727)	-
Removing funds in escrow held for defeased COP	-	-	(3,363,257)
Balances, June 30 2018, Audited Financial Statement	$ 4,261,659	$ -	$ 1,794,681

See accompanying note to supplementary information.

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

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND				
Revenues	$ 59,220,266	$ 56,758,102	$ 53,700,695	$ 51,995,305
Other sources and transfer in	-	-	-	-
Total Revenues and Other Sources	59,220,266	56,758,102	53,700,695	51,995,305
Expenditures	57,159,841	53,818,398	52,183,933	49,885,408
Other uses and transfers out	2,545,131	2,432,085	1,506,764	1,429,969
Total Expenditures and Other Uses	59,704,972	56,250,483	53,690,697	51,315,377
Increase (Decrease) in Fund Balance	$ (484,706)	$ 507,619	$ 9,998	$ 679,928
Ending Fund Balance	$ 3,776,953	$ 4,261,659	$ 3,754,040	$ 3,744,042
Available Reserves [2]	$ 3,244,049	$ 3,233,514	$ 3,496,687	$ 3,154,906
Available Reserves as a percentage of Total Outgo	5.43%	5.75%	6.51%	6.15%
Long-Term Obligations	$ 106,957,360	$ 118,945,504	$ 130,193,074	$ 82,968,690
Average Daily Attendance at P-2	3,311	3,277	3,220	3,149

The General Fund balance has increased by $517,617 over the past two years. The fiscal year 2018-19 budget projects a decrease of $484,706 (11%). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District's reserves exceed this standard.

The District has incurred operating surpluses in all of the past three years, but anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by approx. $36 million over the past two years due to new bond issuance in 2016-17.

Average daily attendance has increased by 128 ADA over the past two years. Additional growth of 34 ADA is anticipated during fiscal year 2018-19.

[1] Budget 2019 is included for analytical purposes only and has not been subjected to audit.

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

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Cafeteria Fund	Capital Facilities Fund	COP Debt Service Fund	Retiree Benefits Fund	Non-Major Governmental Funds
ASSETS					
Deposits and investments	$ 31,121	$ 787,259	$ -	$ 1,228,690	$ 2,047,070
Receivables	1,119	54,579	-	5,184	60,882
Stores inventories	8,291	-	-	-	8,291
Total Assets	$ 40,531	$ 841,838	$ -	$ 1,233,874	$ 2,116,243
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 5,782	$ -	$ -	$ -	$ 5,782
Unearned revenue	21,958	-	-	-	21,958
Total Liabilities	27,740	-	-	-	27,740
Fund balances:					
Nonspendable	11,141	-	-	-	11,141
Restricted	1,650	841,838	-	-	843,488
Committed	-	-	-	1,233,874	1,233,874
Total Fund Balances	12,791	841,838	-	1,233,874	2,088,503
Total Liabilities and Fund Balances	$ 40,531	$ 841,838	$ -	$ 1,233,874	$ 2,116,243

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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

	Cafeteria Fund	Capital Facilities Fund	COP Debt Service Fund	Retiree Benefits Fund	Non-Major Governmental Funds
REVENUES					
Other local sources	$ 602,307	$ 302,412	$ -	$ 17,588	$ 922,307
EXPENDITURES					
Current					
Pupil Services:					
Food services	841,556	-	-	-	841,556
Debt service					
Principal	-	348,791	-	-	348,791
Interest and other	-	70,011	-	-	70,011
Total Expenditures	841,556	418,802	-	-	1,260,358
Excess (Deficiency) of Revenues Over Expenditures	(239,249)	(116,390)	-	17,588	(338,051)
Other Financing Sources (Uses):					
Transfers in	240,899	-	-	-	240,899
Transfers out	-	-	(499,765)	-	(499,765)
Net Financing Sources (Uses)	240,899	-	(499,765)	-	(258,866)
NET CHANGE IN FUND BALANCES	1,650	(116,390)	(499,765)	17,588	(596,917)
Fund Balances - Beginning	11,141	958,228	499,765	1,216,286	2,685,420
Fund Balances - Ending	$ 12,791	$ 841,838	$ -	$ 1,233,874	$ 2,088,503

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). The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District did not receive incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Los Gatos-Saratoga Joint Union High School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Los Gatos-Saratoga Joint Union High School District's basic financial statements, and have issued our report thereon dated November 15, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 15, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited Los Gatos-Saratoga Joint Union High School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. Los Gatos-Saratoga Joint Union High School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 15, 2018

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

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Los Gatos-Saratoga Joint Union High School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Los Gatos-Saratoga Joint Union High School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion

In our opinion, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	No, see below
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
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer Kindergarten Continuance program, Independent Study program, Continuation Education, Early Retirement Incentive, Juvenile Court Schools, Transportation Services, Apprenticeship program, Before/After School Education and Safety program, Independent Study-Course Based program; therefore, we did not perform procedures related to these programs.

The District did not offer K-8 education; therefore, we did not perform procedures related to the K-3 Grade Span Adjustment.

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 15, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies?	None reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	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, 8427A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for all state programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

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

None reported.

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

None reported.

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

Summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Awards Findings

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

Finding

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

Recommendation

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

Current Status

Resolved