

***LAKE OSWEGO SCHOOL
DISTRICT NO. 7J
CLACKAMAS COUNTY, OREGON
FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017***

Prepared by:
Business Services Department

Stuart Ketzler, CPA
Assistant Superintendent of Business Services

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
JUNE 30, 2017

BOARD OF DIRECTORS

<u><i>Name</i></u>	<u><i>Title</i></u>	<u><i>Term Expires</i></u>
Sarah Howell	Chair	June 30, 2017
Liz Hartman	Member	June 30, 2017
Bob Barman	Member	June 30, 2019
John Wallin	Member	June 30, 2019
John Wendland	Member	June 30, 2017

The above Board Members receive mail at the address below:

ADMINISTRATION

Lake Oswego School District No.7J
PO Box 70
Lake Oswego, Oregon 97034
Dr. Heather Beck, Superintendent

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GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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INDEPENDENT AUDITOR'S REPORT

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake Oswego School District No. 7J, Clackamas County, Oregon (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake Oswego School District No. 7J, Clackamas County, Oregon as of June 30, 2017, and the respective changes in financial position 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 Principle

As described in the notes to the financial statements, in the year ended June 30, 2017, the District adopted new accounting guidance, GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, and 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (MD&A), the schedule of the proportionate share of the net pension liability for PERS, the schedule of contributions for PERS, the schedule of changes in the total pension liability and related ratios, the schedule of changes in the total OPEB liability and related ratios, and the budgetary comparison information 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 MD&A, the schedule of the proportionate share of the net pension liability for PERS, the schedule of contributions for PERS, the schedule of changes in the total pension liability and related ratios, and the schedule of changes in the total OPEB liability and related ratios 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.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information and the statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost*

Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we do not express an opinion or provide any assurance on it.

Reports on Other Legal and Regulatory Requirements


Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2017, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 29, 2017, on our consideration of the District’s compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Larry E. Grant, A Shareholder
December 29, 2017

LAKE OSWEGO SCHOOL DISTRICT NO. 7J, CLACKAMAS COUNTY, OREGON
Management's Discussion and Analysis

As management of the Lake Oswego School District No. 7J, Clackamas County, Oregon (Lake Oswego School District or the District), we offer readers this narrative overview and analysis of the financial activities of the Lake Oswego School District for the fiscal year ended June 30, 2017.

Financial Highlights

- The liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of Lake Oswego School District at the close of the most recent fiscal year by \$12,542,921 at June 30, 2017. Of this amount, \$45,807,642 is invested in capital assets, net of related debt, \$131,280 is restricted to the payment of the District's general obligation bonded debt, and the remainder, (\$58,481,843), is unrestricted. The negative unrestricted portion of net position is due primarily to the District's net pension and other postemployment benefit liabilities recorded under GASBS Nos. 68, 73, and 75 as well as the fact that government entities tend to raise resources when the liabilities are expected to be paid rather than when they are incurred.
- Net position increased by \$627,671 from the prior year's balance, due primarily to an increase in local property tax revenues and state resources.
- At June 30, 2017, the District's governmental funds reported combined ending fund balances of \$14,694,191.
- At June 30, 2017, the General Fund had an unassigned fund balance of \$14,072,078, an increase of \$3,392,529 from the prior year's unassigned fund balance of \$10,679,549. This increase was due to an increase in local property tax revenues and state resources, offset in part by increased expenditures. Additional information on state funding and the District's response can be found in the Economic Factors and Next Year's Budgets discussion near the end of this analysis.
- At the May 16, 2017 election, district voters approved issuance of up to \$187 million in bonds to replace Lakeridge Junior High School and make capital improvements district-wide. As more fully explained in the subsequent events footnote, the sale of \$160 million in bonds under this authorization was concluded in August 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lake Oswego School District's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

- The *statement of net position* presents information on all of the District's total assets and deferred outflows and total liabilities and deferred inflows with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). As is typical for a school district, the District has governmental activities, which include instruction, supporting services, enterprise and community services, facilities acquisition and construction, and debt service. The District currently does not have any business-type activities.

The government-wide financial statements can be found on pages 13 - 14 of this report.

Fund Financial Statements are designed to demonstrate compliance with finance-related legal requirements overseeing the use of fund accounting. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. All of the funds of the District are governmental funds.

Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of available resources, as well as on balances of available resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four major governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Community Contributions Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds at the fund appropriation level is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each fund, individually presented to demonstrate compliance with their budgets.

The governmental fund financial statements can be found on pages 15 - 18 of this report.

Notes To Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 51 of this report.

The Combining Statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements and required supplementary information along with individual fund schedules.

Government-Wide Financial Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of Lake Oswego School District, assets and deferred outflows of resources were exceeded by liabilities and deferred inflows of resources by \$12,542,921 at the close of the most recent fiscal year. A condensed Statement of Net Position for the current and prior fiscal year-end follows:

Statements of Net Position
June 30,

	2017	2016
Assets		
Current and Other Assets	\$ 26,138,454	\$ 24,699,831
Net Capital Assets	106,219,361	106,853,910
Total Assets	132,357,815	131,553,741
Deferred Outflows of Resources	23,285,281	2,924,564
Total Assets and Deferred Outflows of Resources	155,643,096	134,478,305
Liabilities		
Other Liabilities	9,512,041	9,811,249
Long-Term Debt	96,291,730	106,091,300
Pension and OPEB Liabilities	59,498,747	16,722,378
Total Liabilities	165,302,518	132,624,927
Deferred Inflows of Resources	2,883,499	3,777,706
Total Liabilities and Deferred Inflows of Resources	168,186,017	136,402,633
Net Position		
Net Investment in Capital Assets	45,807,642	43,575,575
Restricted	131,280	291,857
Unrestricted	(58,481,843)	(45,791,760)
Total Net Position as originally stated	\$ (12,542,921)	\$ (1,924,328)

Current and other assets increased due to an improvement in local property taxes and state funding as more fully explained in the Revenues discussion on page 7. The District's other liabilities have decreased due primarily to decreases in its accrued payroll, benefits payable and unearned revenue. Long-term debt obligations have decreased due to normal annual principal payments.

Pension and OPEB liabilities increased due to pension plan results through June 30, 2016 under GASBS No. 68, as well as the recording of OPEB liabilities as of June 30, 2017 in accordance with GASBS Nos. 73 and 75. These liabilities and the related deferred outflows and deferred inflows of resources represent the District's estimated portion of the state PERS pension obligations recorded in the District's statement of net position as more fully discussed in the footnotes beginning at page 33, plus the OPEB liabilities as more fully discussed in the footnotes beginning at page 40. Net capital assets have decreased due to the normal depreciation of depreciable capital assets.

By far the largest portion of the District's net position is its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets for classrooms and supporting services for providing K-12 education; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The source is primarily property taxes levied for debt service.

As previously noted, due primarily to the increase in the District's property taxes and state revenues, the District's net position increased by \$627,671 during the current fiscal year.

At the end of the current fiscal year, the District's net position - unrestricted shows a deficit balance of \$58,481,843. The government-wide statement of net position recognizes a liability as soon as an obligation is incurred, even though the payment may not be made until some future period, including pension related balances. As governments tend to raise resources when the liabilities are expected to be paid rather than when they are incurred, most governments do not have sufficient current resources to cover long-term liabilities. This is the case for the District.

The revenues and expenses shown below explain changes in net position for the fiscal years ending June 30, 2017 and 2016.

Statements of Activities				
Year Ended June 30,				
	<u>2017</u>		<u>2016</u>	
Revenues				
Program Revenues				
Charges for Services	\$ 7,941,772	8.73%	\$ 8,306,878	9.52%
Grants and Contributions	4,418,816	4.86%	4,151,107	4.76%
Total Program Revenues	<u>12,360,588</u>	<u>13.59%</u>	<u>12,457,985</u>	<u>14.28%</u>
General Revenues				
Property Taxes	48,976,238	53.82%	46,579,744	53.40%
State Revenue Sharing	28,142,964	30.93%	26,951,808	30.90%
Other Federal, State and Local Sources	1,148,943	1.26%	1,076,585	1.23%
Investment Earnings	372,725	0.41%	169,076	0.19%
Total General Revenues	<u>78,640,870</u>	<u>86.42%</u>	<u>74,777,213</u>	<u>85.72%</u>
Total Revenues	<u>91,001,458</u>	<u>100.01%</u>	<u>87,235,198</u>	<u>100.00%</u>
Expenses				
Instruction	52,639,876	58.25%	56,608,733	59.06%
Support Services	24,800,564	27.44%	25,952,740	27.08%
Community Services	4,738,716	5.24%	4,767,236	4.97%
Facilities Acquisition and Construction	(56,655)	-0.06%	(34,027)	-0.04%
Depreciation and Amortization	2,999,659	3.32%	3,010,680	3.14%
Interest on Long-Term Debt	5,251,627	5.81%	5,537,936	5.79%
Total Expenses	<u>90,373,787</u>	<u>100.00%</u>	<u>95,843,298</u>	<u>100.00%</u>
Change in Net Position	627,671		(8,608,100)	
Net Position - Beginning as restated	(13,170,592)		(4,562,492)	
Net Position - Ending	<u>\$ (12,542,921)</u>		<u>\$ (13,170,592)</u>	

Revenues. Since the District's mission is to provide a free and appropriate public education for K-12 students within its boundaries, the District may not charge for its core services. Therefore, as expected, general revenues typically provide over 80% of the funding required for governmental programs. Property taxes and State Revenue Sharing combined account for 98% and 98.3% of general revenues and 85% and 84% of total revenues for the 2017 and 2016 fiscal years, respectively. State Revenue Sharing has improved since it was significantly reduced in 2009 through 2013 due to the slow recovery from the 2008-09 recession. Property taxes have also rebounded due to the improving economy. Charges for services are only 8.73% and 9.52% of total revenues for the 2017 and 2016 fiscal years, respectively, and are comprised of the following items for which it is appropriate to charge tuition or fees:

	2017	2016
• Community services charges for enrichment and extended day care programs	\$ 2,698,666	\$ 2,541,549
• Food services charges not only for lunch and breakfast, but also for catering and contract services	1,333,578	1,280,385
• Tuition and fees are charged for participation in various extra-curricular activities and out-of-district students	3,909,528	4,484,853
	<u>3,909,528</u>	<u>4,484,853</u>
Total Charges for Services:	<u>\$ 7,941,772</u>	<u>\$ 8,306,787</u>

Charges for extended care programs and tuition increased in fiscal year 2017 due to additional programs and a modest increase in extended day care fees. Food service charges increased in fiscal year 2017 due to a modest fee increase. Grants and contributions represent 4.86% and 4.76% of total revenues for the 2017 and 2016 fiscal years, respectively. Also included in this category is \$394,827 and \$397,928 for federal reimbursement and subsidy under the school lunch program for the 2017 and 2016 fiscal years, respectively. Other federal, state, and other grants for designated programs totaled \$1,559,218 and \$1,563,572, respectively. The balance is comprised primarily of contributions through the Lake Oswego School District Foundation, which was \$1.32 million in fiscal year 2017 and \$815,000 in fiscal year 2016, as well as donations from parents and each school's booster organization.

Expenses. Expenses related to governmental activities are presented in five broad functional categories. Costs of direct classroom instruction activities account for 58% and 59% of the total expenses of \$90,373,787 and \$95,843,298 for the 2017 and 2016 fiscal years, respectively. In addition, approximately half of the costs in supporting services relate to students, instructional staff and school administration.

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	2017	2017	2016	2016
Instruction	\$ 52,639,876	\$ 46,873,202	\$ 56,608,733	\$ 50,668,570
Support Services	24,800,564	23,320,990	25,952,740	24,571,228
Community Services	4,738,716	401,282	4,767,236	540,300
Facilities Acquisition and Construction	(56,655)	(706,086)	(34,027)	(838,200)
Depreciation and Amortization	2,999,659	2,999,659	3,010,680	3,010,680
Interest on Long-Term Debt	5,251,627	5,124,152	5,537,936	5,432,735
Total	<u>\$ 90,373,787</u>	<u>\$ 78,013,199</u>	<u>\$ 95,843,298</u>	<u>\$ 83,385,313</u>

Total and net costs of services decreased in fiscal year 2017 due primarily to the decrease in PERS pension expense, offset in part by increased expenditures due to normal cost increases, modest increases in staffing, and new textbook costs. Interest on long-term debt expenses decreased due to normal reductions of debts from normal scheduled principal payments.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of June 30, 2017, the District's governmental funds reported combined ending fund balances of \$14,694,191. Additionally, \$171,657 is unspendable inventory and prepaid costs for use by various funds. \$1,125,246 is committed in the Special Revenue Funds, the majority of which is the fund balance for the Student Activity Fund. These fund balances are committed to programs congruent with the nature of the special revenue source. The remaining \$13,397,288 constitutes *unassigned fund balance*, which is available for spending at the District's discretion.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$14,072,078, an increase of \$3,392,529 from the prior year. This increase was due primarily to increased property taxes and state revenue sharing.

The Debt Service Fund had a deficit ending fund balance of \$29,702 at the end of the current fiscal year. Property taxes are the primary revenue source and are relatively stable, so taxes are levied at the minimum amount sufficient for meeting current debt service obligations. The deficit balance will be resolved in fiscal year 2018 and was due to prior collections for the current and prior year being less than expected.

The Capital Projects Fund had a deficit ending fund balance of \$645,088 for capital projects in progress that will be completed in fiscal year 2018. The deficit balance was resolved in fiscal year 2018 with the sale of \$160 million of the district’s new bond authority of \$187 million approved by voters in the May 16, 2017 election.

Budgetary Highlights

The General Fund is the largest fund of the governmental funds. Due to a strong real estate market recovery, property tax revenues exceeded budgeted amounts by \$0.9 million and state revenue sources exceeded budgeted amounts by \$1 million. There was a positive variance of \$10 million above the \$4.1 million budgeted for the ending fund balance.

The only differences between the original budget and the final amended budgets of the governmental funds was a budget transfer in the General Fund’s contingency appropriation category to the instruction services appropriation category for \$50,000 to support additional staff from higher extra-curricular costs and a \$150,000 appropriation transfer from instruction services appropriate category in the Grants Fund to the support services appropriation category. Additional information on the budget can be found in the notes to the basic financial statements.

Capital Asset and Debt Administration

Capital assets. The District’s investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$106,219,361, a decrease of \$634,549 from the prior year amount of \$106,853,910 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, equipment and furniture, and construction in progress. The District’s investment in capital assets for the current fiscal year decreased by 0.6% due to ongoing regular annual depreciation, offset by capital improvements largely funded by the new bond approved in May 2017.

Capital Assets (Net of Depreciation)	Governmental Activities		Percentage Change
	Total School District		
	2017	2016	
Land	\$ 5,317,870	\$ 5,317,870	0.00%
Buildings and Improvements	96,682,224	99,435,579	-2.77%
Vehicles, Equipment and Furniture	1,550,749	1,242,007	24.86%
Construction in Progress	2,668,518	858,454	210.85%
Total	\$ 106,219,361	\$ 106,853,910	-0.59%

Major capital asset events during the current and prior fiscal years included the following:

- Following extensive analysis and referral of a measure from the school board, voters approved in May 2017 issuance of up to \$187 million in bonds to fund replacement of Lakeridge Junior High School and improvements district wide. This followed studies of district real estate holdings during 2014 highlighted significant capital needs at the elementary and junior high schools, especially at Lakeridge Jr. High, due to expansive soils conditions, and at Oak Creek Elementary, due primarily to poor construction techniques employed in its original

construction in 1990. The District convened a Facilities Advisory Committee in October 2014 to receive additional perspective and guidance from community members with significant facility expertise. A more formalized analysis of all District facilities completed in October 2015 identified \$51 million in deferred maintenance construction costs as well as an additional \$47 million in estimated seismic upgrades to bring all facilities up to at least a “life-safety standard”, which is a level of seismic resiliency that would allow safe exiting in the event of a major earthquake, though not necessarily preserving the building’s full structural integrity.

Additional information on the District’s capital assets can be found in the notes to the basic financial statements of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$96,291,730, which does not include its other postemployment benefit liability of \$13,304,426 or its net pension liability of \$46,194,321. Of this \$96,291,730, \$88,675,098 is comprised of general obligation debt and pension obligation debt net of unamortized premiums and discounts, and \$7,616,632 comprises debts backed by the full faith and credit of the District. The District’s total debt decreased by \$6,444,938 during the current fiscal and by \$5,319,760 during fiscal year 2016 due to normal scheduled principal payments.

	Outstanding Long-Term Debt		Percentage Change
	Total School District		
	2017	2016	
Bonded Debt	\$ 88,675,098	\$ 94,075,340	-6.1%
Other Long-Term Debt	7,616,632	8,661,328	-13.7%
Total	\$ 96,291,730	\$ 102,736,668	-6.7%

Moody’s Investors Service issued its rating of Aa1 on the District’s August 2017 \$160 million unlimited tax general obligation bonds. S & P Global Ratings rated the district’s \$160 million unlimited tax general obligation bonds issued in 2017 as AA+, the highest rating assigned to a school district in Oregon. The ratings are primarily based on the District’s large and diverse tax base, which continues to grow, and strong community support.

State statutes limit the amount of general obligation debt a school district may issue based on a formula using a percentage of the Real Market Value of all taxable properties within the District. The District’s general obligation bond debt capacity is \$910 million, calculated as 7.95% of Real Market Value of \$11.4 billion. This limit is significantly in excess of the District’s June 30, 2017 outstanding general obligation debt of \$52,150,000.

Additional information on the District’s long-term debt can be found in the notes to the basic financial statements of this report.

Economic Factors and Next Year’s Budgets

The State of Oregon has no sales tax so funding for public schools essentially rely on a combination of income taxes collected at the state level and property taxes collected at the local level. These resources are aggregated under a state-wide formula and distributed to school districts based on each district’s attendance and various weighting of certain factors. Since the implementation of two state-wide measures in the 1990’s that reduced property tax levies, property taxes now provide approximately one third of the resources distributed via this state-wide formula. Prior to the implementation of these two state-wide measures, property taxes accounted for almost two thirds of the resources in this formula. This increased reliance on income tax receipts has introduced a greater measure of volatility in state school funding. The state budget, including K-12 funding, experienced significant reductions in the wake of the 2009 and 2002 recessions. While slow, the Oregon economy has been steadily improving for over the past several years. Final state-wide K-12 state funding for the 2013-15 biennium was \$6.65 billion, up from \$5.7 billion in the 2011-13 biennium. With an improving economy, K-12 state funding for the 2015-17 biennium was approved at \$7.4 billion, though approximately \$200 million of the increase funds the implementation of full-day kindergarten on a state-wide basis. Previously the state only funded kindergarten on a half-day basis. With that as context, the following additional observations regarding economic factors and the budget for the next year are provided to highlight noteworthy issues:

- State funding for the District was \$23.5 million for fiscal year 2008 and steadily declined in the wake of the great recession, to less than \$18.2 million for fiscal year 2013, rebounding to \$22.9 million for fiscal year 2014, \$24.5 million for fiscal year 2015, \$26.9 million for fiscal year 2016, and \$28 million for fiscal year 2017. With state improved funding for the 2017-19 biennium at \$8.2 billion, offset in part by increased costs from an increase in PERS pension contribution rates effective July 1, 2017, it is presently estimated to be over \$29 million for fiscal year 2018, which, while still inadequate, will allow the District, in combination with Foundation fund-raising, local option property tax revenues, and cost-cutting measures implemented following the great recession, as more fully discussed below, to retain its current program offerings and end the 2018 fiscal year with a positive fund balance, possibly even larger than its \$14.1 million June 30, 2017 unassigned fund balance in the General Fund.
- While the District reduced staff and implemented other cost-reduction measures, the most significant cost-reduction measure implemented in response to the Great Recession was the District's reconfiguration of its elementary and junior high school grade levels that allowed the closure of three elementary schools. Analysis of this potential consolidation was initially in response to declining enrollment, but, due to the continued state funding crisis, a committee of the school board reviewed configuration scenarios in 2010 that, if enacted, would reduce costs by approximately \$1.5 million per year without necessarily involving the reduction of teaching staff. In December 2010, this committee presented its report to the School Board wherein it recommended the District close 3 of its 9 elementary schools at the end of the 2010-11 school year. This would be accomplished by reconfiguring the remaining 6 elementary schools from grades K to 6 to grades K to 5, and reconfiguring the District's two junior highs to grades 6 to 8 middle schools. While the committee recognized this would be a challenging and difficult transition, the committee believed the \$1.5 million saved each year in reduced support and infrastructure costs would help maintain core instructional programs, thereby allowing the district a better opportunity to meet the high educational expectations of the Lake Oswego community. A separate committee formed in early 2011 identified the three schools for closure and the school board ultimately decided to implement the closures and associated reconfiguration in two phases, closing one elementary school at the end of the 2010-11 school year and closing one more and repurposing the third at the end of the 2011-12 school year. These closures and reconfiguration are estimated to save the District approximately \$1.5 million per year in reduced support and infrastructure costs and economies of scale.
- Partially offsetting the loss of state funding has been very successful volunteer fund-raising efforts by the independent private non-profit Lake Oswego School District Foundation (the Foundation). As a result of its efforts and the generosity of the Lake Oswego community, the Foundation provided \$1.4 million to the District for fiscal year 2011, \$2.1 million for fiscal year 2012, \$1.7 million for fiscal year 2013, \$1.6 million for each fiscal year 2014 and 2015, \$815,000 for fiscal year 2016, and \$1.32 million for fiscal year 2017. The Foundation expects to raise \$1.35 million for fiscal year 2018. These fundraising efforts are remarkable feats in light of the significant recession that began in 2008. The City of Lake Oswego, recognizing the vital role the District plays in the city, provided \$2 million in one-time funding to the District in fiscal year 2012. The District is extremely grateful to the Mayor, City Council and city staff members for the difficult choices that were made to benefit our students and looks forward to additional opportunities to work with the City to keep our schools vibrant and attractive. Additionally, with voter approval, the District is able to raise additional property tax revenues using a local option tax levy. First implemented in 2000, District voters overwhelmingly authorized an additional 5 years of this levy on November 5, 2013. The levy was renewed with 78.5% voting in favor, which will provide local option tax revenues to the District each year through fiscal year 2020. Local option tax revenues were \$9.64 million in fiscal year 2017, \$8.75 million in fiscal year 2016 and \$7.46 million in fiscal year 2015. Those are substantial increases above the amounts received in the two prior years; \$5.88 million in fiscal year 2014 and \$5.91 million in fiscal year 2013, down from \$7.45 million in fiscal year 2010. Prior to fiscal year 2016, fiscal year 2010 had been the highest single year of local option tax revenues; the lower amounts in the following years were due to declining real market property values under a phenomena generally known as compression. The revenues generated by this local option tax will increase to approximately \$10.1 million in fiscal year 2018 as real market values continue to rebound at a rate higher than normal annual increases in assessed values. \$9.95 million was budgeted for local option property taxes in fiscal year 2018. The District is hopeful this positive trend will continue in succeeding property tax assessments and valuations.

- The District settled its lawsuit against former legal representation in fiscal year 2014 in exchange for receipt of a \$1.5 million payment. This left the District approximately \$5.5 million short of full recovery of damages it incurred in connection with its two high school capital projects. This shortfall was funded by a long-term Full Faith and Credit obligation issued in June 2015 that matures in 2030. Resources in the Capital Projects Fund largely paid fiscal year 2017 debt service on this debt so it did not significantly impact the District's fiscal year 2017 General Fund budget, but all debt service payments beyond fiscal year 2017 will come from the General Fund unless an alternate payment source is secured.
- The District's licensed staff are represented by the Lake Oswego Education Association and its classified staff by the Lake Oswego School Employees Association under separate contracts that expired June 30, 2017. In August 2017, both associations approved new four year agreements that expire on June 30, 2021.
- PERS released actual employer contribution rates effective as of July 1, 2017: the District will see an increase in its PERS rates of 5% on average, representing approximately \$2 million in additional PERS contribution expenditures annually for fiscal year 2018 and beyond. The increase is due primarily to the Oregon Supreme Court's 2015 reversal in their decision in Moro vs/ State of Oregon of the majority of legislative reforms to PERS that were enacted in 2013. PERS rates, benefits and policies are set at the state level and the District is mandated by state law to participate.
- Administration and the school board are actively involved in strategic planning to continue to lead the District in a fiscally responsible manner. A new fund balance policy was adopted in March 2015 which, among other things, established a minimum General Fund fund balance target of 8% of General Fund adopted expenditures and a maximum of 15%. Ending fund balances projected to be outside these ranges require a corrective plan of action for the school board's consideration. The General Fund fund balance at June 30, 2017 is 19.8% of adopted expenditures and it is likely the fund balance will also exceed the upper 15% limit at the end of fiscal year 2018. However, due to projected increases in PERS rates that will take place in the next biennium, unless there is a large increase in state funding for the 2019-21 biennium, revenues may not sufficiently cover all mandated cost increases the District presently anticipates. Long-term strategic plans are in process to guide the District as major decisions are made.

Requests for Information

This financial report is designed to provide a general overview of the Lake Oswego School District's finances for all those with such an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Assistant Superintendent of Business Services, Lake Oswego School District, P.O. Box 70, Lake Oswego, Oregon 97034.



Heather Beck
Superintendent



Stuart Ketzler
Assistant Superintendent of Business Services

BASIC FINANCIAL STATEMENTS

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
STATEMENT OF NET POSITION
JUNE 30, 2017

	PRIMARY GOVERNMENT	COMPONENT UNIT
ASSETS:		
Cash and Cash Equivalents	\$ 21,980,777	\$ -
Intergovernmental Receivables	-	335,772
Property Taxes and Other Receivables	3,986,020	12,337
Prepays	72,708	-
Inventories	98,949	-
Capital Assets Not Being Depreciated	7,986,388	-
Capital Assets, Net of Accumulated Depreciation	98,232,973	-
	<hr/>	<hr/>
Total Assets	132,357,815	348,109
DEFERRED OUTFLOWS OF RESOURCES		
OPEB Deferred Outflows	20,695	-
PERS Pension Deferred Outflows	23,264,586	-
	<hr/>	<hr/>
	23,285,281	-
	<hr/>	<hr/>
Total Assets and Deferred Outflows of Resources	155,643,096	348,109
LIABILITIES:		
Accounts Payable	2,811,726	10,622
Accrued Payroll, Taxes, and Employee Withholdings	4,026,887	-
Intergovernmental Payables	335,772	-
Unearned Revenue	1,567,784	-
Accrued Interest Payable	236,492	-
Vested Compensated Absences Payable	533,380	-
Long-term Liabilities:		
Due Within One Year	7,092,530	-
Due in More Than One Year	89,199,200	-
Net Pension Liability	46,194,321	-
Other Postemployment Benefits Liability	13,304,426	-
	<hr/>	<hr/>
Total Liabilities	165,302,518	10,622
DEFERRED INFLOWS OF RESOURCES		
OPEB Deferred Inflows	1,849,975	-
PERS Pension Deferred Inflows	1,033,524	-
	<hr/>	<hr/>
	2,883,499	-
	<hr/>	<hr/>
Total Liabilities and Deferred Inflows of Resources	168,186,017	10,622
NET POSITION:		
Net Investment in Capital Assets	45,807,642	-
Restricted for Debt Service	131,280	-
Unrestricted	(58,481,843)	337,487
	<hr/>	<hr/>
Total Net Position	\$ (12,542,921)	\$ 337,487

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

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

FUNCTIONS	EXPENSES	FUNCTION REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	COMPONENT UNIT
Governmental Activities:						
Instruction	\$ 52,639,876	\$ 3,323,107	\$ 2,443,567	\$ -	\$ (46,873,202)	\$ -
Support Services	24,800,564	586,421	893,153	-	(23,320,990)	-
Community Services	4,738,716	4,032,244	305,190	-	(401,282)	-
Facilities Acquisition	(56,655)	-	-	649,431	706,086	-
Depreciation and Amortization	2,999,659	-	-	-	(2,999,659)	-
Interest on Long-Term Debt	5,251,627	-	127,475	-	(5,124,152)	-
Total Governmental Activities - Primary Government	\$ 90,373,787	\$ 7,941,772	\$ 3,769,385	\$ 649,431	(78,013,199)	-
Component Unit - Lake Grove Park	\$ 171,743	\$ 15,277	\$ -	\$ -	-	(156,466)
General Revenues						
Taxes:						
Property Taxes, Levied for General Purposes						
					42,105,084	195,737
Property Taxes, Levied for Debt Service						
					6,871,154	-
State Revenue Sharing						
					28,142,964	-
Grants and Contributions Not Restricted to Specific Programs:						
Federal						
					13,095	-
State and Local Grants						
					1,135,848	-
Interest and Investment Earnings						
					372,725	69
Total General Revenues					78,640,870	195,806
Changes in Net Position					627,671	39,340
Net Position - Beginning as Originally Stated					(1,924,328)	298,147
Reduction due to implementation of GASB Statement Nos. 73 and 75					(11,246,264)	-
Net Position - Beginning - Restated					(13,170,592)	298,147
Net Position - Ending					\$ (12,542,921)	\$ 337,487

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

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>SPECIAL REVENUE</u>	
	<u>GENERAL</u>	<u>COMMUNITY CONTRIBUTIONS</u>
ASSETS:		
Cash and Investments	\$ 20,288,257	\$ -
Interfund Receivables	-	1,419,532
Receivables:		
Taxes	2,589,420	-
Accounts	507,464	-
Grants	-	-
Prepays	58,487	-
Inventory of Supplies	72,046	-
	<hr/>	<hr/>
Total Assets	<u>\$ 23,515,674</u>	<u>\$ 1,419,532</u>
LIABILITIES AND FUND BALANCES:		
Liabilities		
Interfund Payables	\$ 1,436,761	\$ -
Intergovernmental Payable	335,772	-
Accrued Payroll and Benefits Payable	4,026,887	-
Accounts Payable	1,201,275	47,581
Unearned Revenue	7,747	1,200,000
Matured Bond and Coupons Payable	-	-
	<hr/>	<hr/>
Total Liabilities	<u>7,008,442</u>	<u>1,247,581</u>
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	2,304,621	-
Fund Balances:		
Nonspendable:		
Prepays	58,487	-
Inventory	72,046	-
Committed to:		
Community Support	-	171,951
Student Activities	-	-
Unassigned	14,072,078	-
	<hr/>	<hr/>
Total Fund Balances	<u>14,202,611</u>	<u>171,951</u>
	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 23,515,674</u>	<u>\$ 1,419,532</u>

DEBT SERVICE	CAPITAL PROJECTS	OTHER NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 715,214	\$ 977,306	\$ 21,980,777
-	-	482,266	1,901,798
444,830	-	-	3,034,250
-	269,504	24,105	801,073
-	-	150,697	150,697
-	-	14,221	72,708
-	-	26,903	98,949
<u>\$ 444,830</u>	<u>\$ 984,718</u>	<u>\$ 1,675,498</u>	<u>\$ 28,040,252</u>
\$ 77,059	\$ 121,492	\$ 266,486	\$ 1,901,798
-	-	-	335,772
-	-	-	4,026,887
-	1,508,314	54,556	2,811,726
-	-	360,037	1,567,784
244	-	-	244
<u>77,303</u>	<u>1,629,806</u>	<u>681,079</u>	<u>10,644,211</u>
397,229	-	-	2,701,850
-	-	14,221	72,708
-	-	26,903	98,949
-	-	96,879	268,830
-	-	856,416	856,416
(29,702)	(645,088)	-	13,397,288
<u>(29,702)</u>	<u>-</u>	<u>994,419</u>	<u>14,694,191</u>
<u>\$ 444,830</u>	<u>\$ 1,629,806</u>	<u>\$ 1,675,498</u>	<u>\$ 28,040,252</u>

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

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balances - Governmental Funds \$ 14,694,191

The cost of capital assets (land, buildings and improvements, furniture and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position includes those capital assets among the assets of the District as a whole.

Net Capital Assets 106,219,361

Long-term pension or OPEB assets or liabilities not payable in the current year are not reported as governmental fund liabilities. Deferred outflows and inflows or resources related to pensions or OPEBs are applicable to future periods and, therefore, are not reported in the funds.

PERS and OPEB net pension asset (liability)	\$ (59,498,747)	
Deferred inflows of resources related to pensions and OPEBs	(2,883,499)	
Deferred outflows of resources related to pensions and OPEBs	23,285,281	(39,096,965)

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the Statement of Net Position.

Long Term Liabilities		
Compensated Absences Payable	(533,380)	
FF & C's Payable	(7,430,000)	
Accrued Interest Payable	(236,248)	
Notes Payable	(186,632)	
PERS Bonds Payable	(36,525,098)	
General Obligation Bonds Payable	(52,150,000)	(97,061,358)

Unavailable Revenue Related to Property Taxes 2,701,850

Net Position \$ (12,542,921)

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

LAKE OSWEGO SCHOOL DISTRICT NO.7J**CLACKAMAS COUNTY, OREGON****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -****GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2017**

	<u>SPECIAL REVENUE</u>	
	<u>GENERAL</u>	<u>COMMUNITY CONTRIBUTIONS</u>
REVENUES:		
Local Sources:		
Taxes	\$ 42,006,438	\$ -
Earnings on Investments	285,585	-
Other Local Sources	1,449,354	1,733,881
Intermediate Sources	1,142,922	-
State Sources	28,059,435	-
Federal Sources	13,095	-
	<hr/>	<hr/>
Total Revenues	72,956,829	1,733,881
	<hr/>	<hr/>
EXPENDITURES:		
Current:		
Instruction	43,128,631	1,622,367
Support Services	22,243,134	34,964
Enterprise and Community Services	-	-
Capital Outlay	446,715	36,025
Debt Service:		
Principal	1,056,845	-
Interest and Other Charges	2,587,955	64,695
	<hr/>	<hr/>
Total Expenditures	69,463,280	1,758,051
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	3,493,549	(24,170)
	<hr/>	<hr/>
OTHER FINANCING SOURCES, (USES):		
Transfers In	-	-
Transfers Out	(129,106)	-
	<hr/>	<hr/>
Total Other Financing Sources, (Uses)	(129,106)	-
	<hr/>	<hr/>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	3,364,443	(24,170)
	<hr/>	<hr/>
Increase (Decrease) in Inventories	11,224	-
	<hr/>	<hr/>
FUND BALANCE, Beginning of Year	10,826,944	196,121
	<hr/>	<hr/>
FUND BALANCE, End of Year	\$ 14,202,611	\$ 171,951
	<hr/> <hr/>	<hr/> <hr/>

DEBT SERVICE	CAPITAL PROJECTS	OTHER NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 6,858,615	\$ 482,788	\$ -	\$ 49,347,841
76,093	11,047	-	372,725
-	-	6,492,418	9,675,653
-	122,228	118,800	1,383,950
-	-	83,529	28,142,964
-	-	1,954,045	1,967,140
<u>6,934,708</u>	<u>616,063</u>	<u>8,648,792</u>	<u>90,890,273</u>
-	-	3,401,880	48,152,878
-	6,543	866,561	23,151,202
-	-	4,444,807	4,444,807
-	1,802,042	-	2,284,782
3,970,000	345,253	32,303	5,404,401
<u>2,901,576</u>	<u>74,912</u>	<u>145,712</u>	<u>5,774,850</u>
<u>6,871,576</u>	<u>2,228,750</u>	<u>8,891,263</u>	<u>89,212,920</u>
<u>63,132</u>	<u>(1,612,687)</u>	<u>(242,471)</u>	<u>1,677,353</u>
-	-	129,106	129,106
-	-	-	(129,106)
-	-	129,106	-
63,132	(1,612,687)	(113,365)	1,677,353
-	-	(2,771)	8,453
<u>(92,834)</u>	<u>967,599</u>	<u>1,110,555</u>	<u>13,008,385</u>
<u>\$ (29,702)</u>	<u>\$ (645,088)</u>	<u>\$ 994,419</u>	<u>\$ 14,694,191</u>

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

LAKE OSWEGO SCHOOL DISTRICT NO.7J

CLACKAMAS COUNTY, OREGON

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

Total Net Changes in Fund Balances - Governmental Funds		\$	1,677,353
Repayment of bond and note payable principal, compensated absences, and post retirement obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Additions to compensated absences is an expense for the Statement of Net Position, but not the governmental funds.			6,519,168
Payments capitalized are reported in governmental funds as capital outlay expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation.			
Capitalized Assets	\$	2,365,110	
Depreciation Expense		<u>(2,999,659)</u>	(634,549)
In the Statement of Activities, pension expense is adjusted based on the actuarially determined contribution changes.			
Net Change in PERS Pension and OPEB liability/asset		(27,640,078)	
Net Change in PERS Pension and OPEB deferred outflows of resources		20,360,716	
Net Change in PERS Pension and OPEB deferred inflows of resources		<u>894,207</u>	(6,385,155)
Changes in inventory are a direct reduction of fund balances in the governmental funds. Changes in inventory either increase or reduce expenses in the Statement of Activities.			8,453
In the Statement of Activities, interest is accrued on long-term debt and discounts are accreted, whereas in the governmental funds it is recorded as an expense when due.			(668,784)
Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the District recognizes unavailable revenue for all property taxes levied but not received, however in the Statement of Activities, there is no unavailable revenue and the full property tax receivable is accrued.			<u>111,185</u>
Change in Net Position of Governmental Activities		\$	<u><u>627,671</u></u>

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

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Oswego School District 7J (the District) is a municipal corporation governed by a separately elected five-member Board of Directors. Administrative officials are approved by the Board. The daily functioning of the District is under the supervision of the Superintendent. As required by accounting principles generally accepted in the United States of America, all activities of the District have been included in the basic financial statements.

The District qualifies as a primary government since it has a separately elected governing body, is a legally separate entity, and is fiscally independent. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has one component unit, the Lake Grove Park District. The Lake Grove Park District is included in the School District's reporting entity because the Board of Directors of the District is financially accountable for the Lake Grove Park District.

The Lake Grove Park District's financial statements appear as a discretely presented component unit in the financial statements. They are presented as a separate column to emphasize that they are legally separate from the School District. The Park District was organized under provisions of Oregon Revised Statutes Chapter 390 for the purpose of operating a park district. It is restricted by deed to use by residents of the former Lake Grove School District No. 106. Detailed information about the Park District's budgetary compliance and compliance with laws and regulations is contained in the component unit financial report of Lake Grove Park District. The Park District's address is the same as Lake Oswego School District No. 7J.

Private citizens of the Lake Oswego School District area formed the Lake Oswego School District Foundation in 1986 as a separate, independent non-profit corporation. The Foundation is not a component unit of the District, but it does raise money for the benefit of the District. Included in the Special Revenue Funds' local revenues are Foundation contributions totaling \$1.32 million for the year ended June 30, 2017.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the governmental financial activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed primarily through property taxes, intergovernmental revenues, and charges for services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of its functions/programs. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to that function. Eliminations have been made to minimize the double counting of internal activities in the Statement of Activities, except that interfund services are not eliminated. Program revenues include:

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

(1) charges to students or others for tuition, fees, rentals, material, supplies or services provided and (2) operating grants and contributions. Revenues that are not classified as program revenues, including property taxes and state support, are presented as general revenues.

Net position is reported as restricted when constraints placed on the use of net assets are either externally restricted, imposed by creditors (such as through grantors, contributors or laws) or through constitutional provisions or enabling resolutions.

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each governmental fund category are presented. The emphasis of fund financial statements is on major governmental funds, each being displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The District reports the following major governmental funds:

General Fund - This is the District's primary operating fund and accounts for all revenues and expenditures except those required to be accounted for in another fund. Principal revenue sources are an apportionment from the State of Oregon and property taxes.

Community Contributions Fund - This fund accounts for revenues and expenditures of contributions from various community groups for specific educational projects or programs. This fund is presented as major due to the importance of the information to voters.

Debt Service Fund - This fund accounts for the payment of principal and interest on general obligation bonded debt. Principal revenue sources are property taxes. This fund is presented as major due to the importance of the information to voters.

Capital Projects Fund - This fund is used to account for the District's major construction projects. Proceeds from the sale of bonds are the main source of funding.

In addition, the District reports the following as nonmajor governmental funds:

Special Revenue Funds

Grants Fund - This fund accounts for revenues and expenditures of Federal and State grants which are designated for specific educational projects or programs.

Community Services Fund - This fund accounts for fee-based programs designated to enhance educational opportunities for members of the community. The primary source of revenues are fees charged to participants.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Special Revenue Funds (Continued)

Student Activity Fund - This fund accounts for fee-based extracurricular activities at each of the District's schools. The primary source of revenues are fees charged to participants.

Food Service Fund - This fund accounts for the various food service programs provided by the District. The sale of food and federal subsidies administered by the State are the major revenue sources.

Measurement Focus and Basis of Accounting

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues.

Thus, when program expenses are incurred, there are both net position - restricted and net position - unrestricted available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general resources.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash and Investments

The District's investments consist of time certificates of deposit, U.S. Government Agency securities, and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). Time certificates of deposit are stated at cost which approximates fair value. U.S. Government Agency securities are stated at amortized cost which approximates fair value. The LGIP is stated at cost which approximates fair value.

The Oregon State Treasury administers the LGIP. It is an open-ended, no-load, diversified portfolio offered to any agency, political subdivision or public corporation of the State that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes Receivable

Property taxes are levied and become a lien on July 1. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Uncollected property taxes are recorded on the statement of net position. Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the District.

Accounts and Other Receivables

Accounts and other receivables are comprised primarily of State school support and claims for reimbursement of costs under various federal and state grants. No allowance for doubtful accounts is deemed necessary.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category, arising only under the accrual basis of accounting. As such, these items, *PERS deferred outflows* and *OPEB deferred outflows*, which relate to PERS and OPEB contributions, only appear on the statement of net position.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. Two items, *PERS deferred inflows* and *OPEB deferred inflows*, arise only under a full accrual basis of accounting and only appear on the statement of net position. The other item, *unavailable revenue – property taxes*, only arises under a modified accrual basis of accounting and as such, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Grants and Unearned Revenue

Unreimbursed expenditures due from grantor agencies are reflected in the basic financial statements as receivables and revenues. Grant revenues are recorded at the time eligible expenditures are incurred. Grant monies received prior to the occurrence of qualifying expenditures are recorded as unearned revenue on the statement of net position and the balance sheet.

Inventories

School operating supplies, maintenance supplies, and food and other cafeteria supplies are stated at average invoice cost. Commodities purchased from the United States Department of Agriculture in the Food Service Fund are included in the District's inventories at USDA wholesale value. The District accounts for the inventory based on the purchase method. Under this method, inventory is recorded as an expenditure when purchased. Inventory amounts at year-end are recorded on the governmental funds balance sheet with a reserve to fund balance. Donated commodities consumed during the year are reported as revenues and expenditures. The amount of unused, donated commodities at the balance sheet date is considered immaterial for reporting purposes.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at original or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The District defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated life in excess of one year.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Vehicles and equipment	5 to 15 years

Retirement Plans

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement System (PERS). For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

Permanent employees who have 10-15 years of regular service in the District may be eligible for supplemental post-employment benefits under the terms of certain bargained agreements. Access to healthcare insurance benefits based on group rates are also available to former employees under Oregon Revised Statutes (ORS) 243.303, which requires that, for the purposes of establishing healthcare insurance premiums, the rate must be based on all plan members, including both active employees and retirees. Benefits under these agreements and ORS 243.303 are funded on a current basis in the General Fund. For the purpose of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB pension expense, information about the net position of OPEB and additions to/deductions from OPEB's net position have been determined on the basis of a June 30, 2017 actuarial valuation. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences will be paid from general revenues and are expected to be paid out within 12 months.

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund. In addition, certain funds budgeted as Special Revenue Funds may be reported as part of the General Fund because their source of funds is primarily transfers from the General Fund.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Definitions of Governmental Fund Types (Continued)

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenues sources” means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years should also be reported in debt service funds.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District’s policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Long-term Debt

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements bond premiums and discounts, as well as bond issuance costs, are recognized when incurred and not deferred. The face amount of the debt issued, premiums received on debt issuances, and discounts are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Budget

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting. The budgetary basis of accounting is the same as accounting principles generally accepted in the United States of America for the governmental fund types except that capital outlay expenditures, including items below the District’s capitalization level, are budgeted by major function in governmental fund types. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget (Continued)

Appropriations are established at the major function level (instruction, support services, enterprise and community services, facilities acquisition and construction, debt service, operating contingency and transfers) for each fund. The detail budget document, however, is required to contain more specific, detailed information for the aforementioned expenditure categories. The budget is adopted, appropriations made, and the tax levy declared no later than June 30 each year. Unexpected additional resources may be added to the budget through the use of a supplemental budget or appropriation resolution.

Supplemental budgets less than 10% of a fund's original budget may be adopted by the Board at a regular meeting. A supplemental budget greater than 10% of a fund's original budget requires hearings before the public, publication in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control (major function levels) with Board approval. During the year, two appropriations transfers were made. Appropriations lapse at the end of each fiscal year.

Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

CASH AND INVESTMENTS

The District maintains an internal cash and investments pool that is available for use by all funds. Each fund type's portion of the pool is displayed in the basic financial statements as Cash and Investments or Amounts Due To/From Other Funds. Checks presented to the bank are covered by transfers from the Local Government Investment Pool on at least a weekly basis.

Cash and investments are comprised of the following as of June 30, 2017:

	<i>Carrying Value</i>	<i>Fair Value</i>
	<hr/>	<hr/>
<i>Cash and Investments</i>		
Cash on hand	\$ 4,800	\$ 4,800
Deposits with financial institutions	2,635	2,635
Investments	21,973,342	21,973,342
	<hr/>	<hr/>
	\$ 21,980,777	\$ 21,980,777
	<hr/> <hr/>	<hr/> <hr/>

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

CASH AND INVESTMENTS (Continued)

Deposits

The District's deposits with various financial institutions had a bank value of \$1,400,922 and a book value of \$2,635 at year end. The difference is due to transactions in process. Deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the District's deposits with financial institutions for up to \$250,000 each for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each financial institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2017, \$898,807 of the District's bank balances were covered by the PFCP.

Investments

As of June 30, 2017, the District held the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in years</u>	<u>% of portfolio</u>
Treasury bills	\$ 298,578	0.570	1%
Local Government Investment Pool	21,674,764	0.003	99%
	<u>\$ 21,973,342</u>	<u>0.011</u>	<u>100%</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).

The District's investment objective is foremost to preserve capital and protect investment principal, to conform with federal, state, and other legal requirements, to maintain sufficient liquidity to meet operating requirements, to diversify to avoid unreasonable risks regarding security instruments or individual institutions, and to attain a reasonable rate of return.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

CASH AND INVESTMENTS *(Continued)*

Investments (Continued)

With the exception of pass-through funds, the maximum amount of pooled investments to be placed in the Local Government Investment Pool is limited by Oregon Statute to an amount in excess of \$40 million, which will increase proportionately to the Portland Consumer Price Index. The limit can be temporarily exceeded for ten business days and does not apply either to pass-through funds or to funds invested on behalf of another governmental unit.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments above, except for the investment in the Local Government Investment Pool which is not evidenced by securities, are held in safekeeping by the financial institution counterparty in the financial institution's general customer account name.

Credit Risk

State of Oregon statutes restrict the types of investments in which the District may invest. Authorized investments include obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool. The District's policy, which adheres to State of Oregon law, is to limit its investments to the following: Issuers within Oregon must be rated "AA" or better (bonds) or A-1/P-1 (commercial paper) or better by a nationally recognized statistical rating organization.

The Oregon State Treasurer maintains the Oregon Short Term Fund, of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, funds are invested as a prudent investor would, exercising reasonable care, skill and caution. The Oregon Short Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. LGIP was created to offer a short-term investment alternative to Oregon local governments. The investments are regulated by the Oregon Short Term Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2017, the fair value of the position in the Oregon State Treasurer's Short Term Investment Pool was approximately equal to the value of the pool shares. Separate financial statements for the Oregon Short Term Fund are available from the Oregon State Treasurer. The LGIP is not rated for credit risk.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet the cash requirement for ongoing operations, thereby avoiding the need to sell securities in the open market, and invest operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limit the average maturity in accordance with the District's cash requirements.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The District's policy for investing in individual issuers varies depending on the type of investments. U.S. treasury obligations do not have restrictions regarding concentration with any one issuer. U.S. agency securities are limited to no more than one-third of the portfolio and may be invested in any specific agency. Bankers Acceptances must be purchased from an Oregon chartered financial institution. Certificates of deposit of commercial banks shall not represent more than 10% of the total portfolio at settlement. Investments in commercial paper or corporate indebtedness with any one issuer may not exceed 5% of the total portfolio at settlement date.

As a means to comply with the District's investment objectives, the policy limits investments as follows:

<i>Investment Type</i>	<i>Maximum % of Portfolio</i>	<i>Maximum length to maturity</i>
Certificates of Deposit	100%	2 years
U.S. Treasury Obligations (Bills, Notes, Bonds)	100%	2 years
Local Government Investment Pool	100%	1 day
Federal Agency Securities	50%	2 years
Repurchase Agreements	25%	2 years
Banker's Acceptances	50%	2 years

RECEIVABLES

Receivables are comprised of the following as of June 30, 2017:

Property taxes receivable	
General Fund	\$ 2,589,420
Debt Service Fund	444,830
Total property taxes receivable	<u>3,034,250</u>
Accounts and grants receivable	
General Fund	507,464
Capital Projects Fund	269,504
Other Nonmajor Governmental Funds	174,802
Total accounts and grants receivable	<u>951,770</u>
Total	<u>\$ 3,986,020</u>

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2017 is as follows:

	<i>Due from Other Funds</i>	<i>Due to Other Funds</i>
General	\$ -	\$ 1,436,761
Community Contributions	1,419,532	-
Debt Service	-	77,059
Capital Projects	-	121,492
Other Nonmajor Governmental Funds	482,266	266,486
	<hr/>	<hr/>
Total	<u>\$ 1,901,798</u>	<u>\$ 1,901,798</u>

Interfund receivables and payables arise during normal processing of receipts and disbursements for all funds through a single checking account and do not represent interfund loans.

CAPITAL ASSETS

Capital assets activity for the year was as follows:

	<i>Balances July 1, 2016</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balances June 30, 2017</i>
Capital assets not being depreciated:				
Land	\$ 5,317,870	\$ -	\$ -	\$ 5,317,870
Construction in progress	858,454	2,089,604	(279,540)	2,668,518
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Capital Assets Not Being Depreciated</i>	6,176,324	2,089,604	(279,540)	7,986,388
Capital assets being depreciated:				
Buildings and improvements	143,408,985	-	-	143,408,985
Vehicles and equipment	4,291,293	555,046	-	4,846,339
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Capital Assets Being Depreciated</i>	147,700,278	555,046	-	148,255,324
Less accumulated depreciation for:				
Buildings and improvements	(43,973,406)	(2,753,355)	-	(46,726,761)
Vehicles and equipment	(3,049,286)	(246,304)	-	(3,295,590)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Accumulated Depreciation</i>	(47,022,692)	(2,999,659)	-	(50,022,351)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Capital Assets Being Depreciated, net</i>	100,677,586	(2,444,613)	-	98,232,973
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Capital Assets, net</i>	<u>\$ 106,853,910</u>	<u>\$ (355,009)</u>	<u>\$ (279,540)</u>	<u>\$ 106,219,361</u>

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

LONG-TERM DEBT

The following is a summary of long-term debt transactions during the year ended June 30, 2017:

	<u>Original Issue</u>	<u>Outstanding July 1, 2016</u>	<u>Issued</u>	<u>Matured and Redeemed</u>	<u>Outstanding June 30, 2017</u>	<u>Amounts Due in One Year</u>
General obligation bonds used for Capital Purposes:						
August 4, 2005	\$ 80,740,000	\$ 56,120,000	\$ -	\$ (3,970,000)	\$ 52,150,000	\$ 4,375,000
Pension Bonds:						
October 2002	23,926,732	18,216,214	-	(487,132)	17,729,082	496,372
April 2003	16,302,037	11,900,728	-	(437,966)	11,462,762	444,579
August 2011	1,660,000	1,660,000	-	-	1,660,000	-
Total pension bonds		<u>31,776,942</u>	<u>-</u>	<u>(925,098)</u>	<u>30,851,844</u>	<u>940,951</u>
Total		87,896,942	-	(4,895,098)	83,001,844	5,315,951
Accretion of discount		<u>6,178,398</u>	<u>686,863</u>	<u>(1,192,007)</u>	<u>5,673,254</u>	<u>1,252,707</u>
Total bonds payable		94,075,340	686,863	(6,087,105)	88,675,098	6,568,658
Note payable		218,935	-	(32,303)	186,632	33,872
Full faith and credit obligations		<u>7,907,000</u>	<u>-</u>	<u>(477,000)</u>	<u>7,430,000</u>	<u>490,000</u>
Total		<u>\$ 102,201,275</u>	<u>\$ 686,863</u>	<u>\$ (6,596,408)</u>	<u>\$ 96,291,730</u>	<u>\$ 7,092,530</u>
General obligation bonds - issued August 4, 2005, due in annual installments of \$570,000 to \$8,275,000 plus interest paid semi-annually at 4.13% to 5.5% through 2026.					\$ 52,150,000	
Pension obligation bonds - issued October 9, 2002, due in annual installments of \$62,817 to \$3,175,000 plus interest paid semi-annually at 2.1% to 6.1% through 2028.					17,729,082	
Pension obligation bonds - issued April 3, 2003, due in annual installments of \$28,701 to \$2,250,000 plus interest paid semi-annually at 1.5% to 6.27% through 2028.					11,462,762	
Pension bonds - issued August 2011, due in one lump sum at maturity of \$1,660,000, plus interest paid semi-annually at 4.12% through 2021.					1,660,000	
Accretion of discount.					5,673,254	
Note payable due in semi-annual installments of \$21,214 including interest at 4.8% per annum through 2022.					186,632	
Full faith and credit obligations - issued June 2, 2015 due in annual installments of \$464,000 to \$662,000 plus interest paid semiannually at 2.545% through 2030.					7,430,000	
Total long-term debt					<u>\$ 96,291,730</u>	

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

LONG-TERM DEBT (Continued)

Future maturities on bonds are as follows:

<i>Fiscal Year</i> <i>Ending</i> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,315,951	\$ 5,544,194	\$ 10,860,145
2019	5,769,048	5,491,408	11,260,456
2020	6,267,936	5,443,947	11,711,883
2021	7,933,158	4,284,423	12,217,581
2022	8,628,095	4,030,579	12,658,674
2023-2027	46,487,656	8,592,391	55,080,047
2028	2,600,000	145,756	2,745,756
	<u>\$ 83,001,844</u>	<u>\$ 33,532,698</u>	<u>\$ 116,534,542</u>

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The District issues general obligation bonds to provide funds for the acquisition and construction of District school facilities. The general obligation bonds will be paid from general property tax revenues from the Debt Service Fund.

Pension obligation bonds will be paid from resources of each fund based on their pro-rata share of each year's pension obligation debt service. The pro-rata share is determined on the basis of each fund's annual PERS contribution expenditures as a percentage of total annual PERS contribution expenditures.

In August 2011, the District issued \$1,660,000 Limited Tax Pension Obligations, Series 2011 (federally taxable) with a net interest cost of 4.12% (the "2011 Refunding bonds") to currently refund a portion of the outstanding 2002 series bonds (the 2021 maturity) with a par value of \$1,595,000 and an average coupon rate of 5.5%. The net proceeds of \$1,620,194 (after payment of \$39,806 in underwriting fees and other issuance costs) were used to refund the identified bonds. The series 2011 Limited Tax Pension Obligations are payable in full at maturity in June 2021. The bonds are federally taxable and subject to optional prepayment prior to their stated maturities.

This refunding reduced total debt service payments over 10 years by \$93,863 and obtained an economic gain, defined as the difference between the present values of the debt service payments on the old and new debt, of \$127,036.

Note payable consists of one loan due in semi-annual payments of \$21,214, each due on December and June 15 including interest at 4.8% per annum, maturing on June 15, 2022.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

LONG-TERM DEBT (Continued)

Future debt service requirements on the note payable are as follows:

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2018	\$ 33,872	\$ 8,557	\$ 42,429
2019	35,517	6,911	42,428
2020	37,242	5,186	42,428
2021	39,051	3,377	42,428
2022	40,950	1,482	42,432
	<u>\$ 186,632</u>	<u>\$ 25,513</u>	<u>\$ 212,145</u>

Future debt service requirements on full faith and credit obligations are as follows:

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2018	\$ 490,000	\$ 189,093	\$ 679,093
2019	504,000	176,623	680,623
2020	517,000	163,796	680,796
2021	525,000	150,639	675,639
2022	538,000	137,277	675,277
2023-2027	2,923,000	472,912	3,395,912
2028-2030	1,933,000	99,230	2,032,230
	<u>\$ 7,430,000</u>	<u>\$ 1,389,570</u>	<u>\$ 8,819,570</u>

Compensated absences activity for the year is as follows:

	<i>Outstanding</i> <i>July 1, 2016</i>	<i>Increases</i>	<i>Decreases</i>	<i>Outstanding</i> <i>June 30, 2017</i>	<i>Amount Due</i> <i>in One Year</i>
Compensated absences	<u>\$ 456,141</u>	<u>\$ 533,380</u>	<u>\$ (456,141)</u>	<u>\$ 533,380</u>	<u>\$ 533,380</u>

Compensated absences will be paid from general revenues and paid from the General Fund.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 129,106
Other nonmajor funds	129,106	-
	<u>129,106</u>	<u>-</u>
Total	<u>\$ 129,106</u>	<u>\$ 129,106</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The District transferred funds to its Food Services Fund to cover ineligible bad debt expenditures and to the Grants Fund and Community Services Fund to cover operating deficits in their programs and to maintain compliance with local budget law that limits instances under which a fund may not have a deficit fund balance.

PENSION PLAN

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employee defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at:

<http://www.oregon.gov/PERS/pages/financials/Actuarial-Financial-Information.aspx>.

Oregon Public Service Retirement Plan Pension Program (OPSRP DB)

The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. The 2003 Oregon Legislature passed PERS reform legislation that essentially created a new retirement plan for employees hired on or after August 29, 2003. These employees became members of the Oregon Public Service Retirement Plan (OPSRP). OPSRP is a hybrid retirement plan with two components: the Pension Program (defined benefit plan) and the Individual Account Program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). OPSRP is administered by PERS.

Pension Benefits. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits. Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits. A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement. Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation, which became effective July 1, 2015. The state of Oregon and certain schools, community colleges, and political subdivision have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2017 were \$1,831,393, excluding amounts to fund employer specific liabilities. Employer PERS pension expense of \$6,387,739 was recognized during the reporting period.

At June 30, 2017, the District reported a net pension liability of \$46,194,321 for its proportionate share of the net pension liability. The pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. 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 employers, actuarially determined. At June 30, 2016, the District's proportion was 0.31 percent.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

	<i>Deferred Outflow of Resources</i>	<i>Deferred (Inflow) of Resources</i>
Difference between expected and actual experience	\$ 1,528,310	\$ -
Changes in assumptions	9,852,139	-
Net difference between projected and actual earnings on pension plan investments	9,126,060	-
Changes in proportionate share	885,729	(75,142)
Difference between employer contributions and employer's proportionate share of system contributions	40,955	(958,382)
Subtotal - Amortized Deferrals	21,433,193	(1,033,524)
District contributions subsequent to measurement date	1,831,393	-
Total deferred outflow (inflow) of resources	\$ 23,264,586	\$ (1,033,524)
Net deferred outflow (inflow) of resources		\$ 22,231,062
Net Amortized Deferrals (below)		\$ 20,399,669

Amounts reported as deferred outflows or inflow of resources related to pension will be recognized in pension expense as follows:

<i>Year ending June 30,</i>	<i>Amount</i>
2017	\$ 3,658,952
2018	3,658,952
2019	7,017,334
2020	5,317,439
2021	746,992
Total	\$ 20,399,669

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB Statement No. 68 reporting summary dated February 8, 2017. Oregon PERS produces an independently audited CAFR which can be found at:

<http://www.oregon.gov/PERS/pages/financials/Actuarial-Financial-Information.aspx>.

Actuarial Valuations

The employer contribution rates effective July 1, 2015 through June 30, 2017, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (estimated amount necessary to finance benefits earned by employees during the current service year), and (2) an amount for the amortization unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 20 years.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Experience study	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial Assumptions	
Inflation Rate	2.5% (previously 2.75%)
Long-term expected rate of return	7.5% (previously 7.75%)
Discount rate	7.5% (previously 7.75%)
Projected salary increases	3.5% (previously 3.75%)
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision; blend based on service.
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Six-distinct, generational per Scale BB, disabled mortality table.</p>

(Source: June 30, 2016 PERS CAFR; page 65)

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The method and assumptions shown are based on the 2014 Experience Study which is reviewed for the four-year period ending December 31, 2014.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Depletion Date Projection – GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's

Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, the detailed depletion date projections outlined in GASB 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

(Source: June 30, 2016 PERS CAFR; page 63)

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Assumed Asset Allocation

Asset Class/Strategy	OIC Policy Range	Current Year Target
Cash	0.0 - 3.0%	0.0%
Debt Securities	15.0 - 25.0	20.0
Public Equity	32.5 - 42.5	37.5
Real Estate	9.5 - 15.5	12.5
Private Equity	13.5 - 21.5	17.5
Alternative Equity	0.0 - 12.5	12.5
Opportunity Portfolio	0.0 - 3.0	0.0
Total		100.0%

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation *	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Core Fixed Income	8.00 %	4.10 %	4.00 %	4.68 %
Short-Term Bonds	8.00	3.65	3.61	2.74
Bank / Leverages Loans	3.00	5.69	5.42	7.82
High Yield Bonds	1.00	6.67	6.20	10.28
Large / Mid Cap US Equities	15.75	7.96	6.70	17.07
Small Cap US Equities	1.31	8.93	6.99	21.35
Micro Cap US Equities	1.31	9.37	7.01	23.72
Developed Foreign Equities	13.13	8.34	6.73	19.40
Emerging Market Equities	4.12	10.56	7.25	28.45
Non-US Small Cap Equities	1.88	9.01	7.22	20.55
Private Equity	17.50	11.60	7.97	30.00
Real Estate (Property)	10.00	6.48	5.84	12.00
Real Estate (REITS)	2.50	8.74	6.69	22.02
Hedge Fund of Funds - Diversified	2.50	4.94	4.64	8.09
Hedge Fund - Event-Driven	0.63	7.07	6.72	8.90
Timber	1.88	6.60	5.85	13.00
Farmland	1.88	7.11	6.37	13.00
Infrastructure	3.75	8.31	7.13	16.50
Commodities	1.88	6.07	4.58	18.40
Assumed Inflation - Mean			2.50 %	1.85 %

Sensitivity - The District's proportionate share of the net pension liability is sensitive to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability (asset)	\$ 74,588,426	\$ 46,194,321	\$ 22,461,817

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Additional disclosures related to Oregon PERS not applicable to specific employers are available by contacting PERS at the following address: PO BOX 23700 Tigard, OR 97281-3700, or at the website below:

<http://www.oregon.gov/PERS/pages/index.aspx>

OPSRP Individual Account Program (OPSRP IAP)

Plan Description – ORS Chapter 238A created the Oregon Public Service Retirement Plan (OPSRP), which consists of the Defined Benefit Pension Program and the Individual Account Program (IAP). Membership includes public employees hired on or after August 29, 2003. PERS members retain their existing defined benefit plan accounts, but member contributions are deposited into the member’s IAP account. OPSRP is part of Oregon PERS, and is administered by the Oregon PERS Board.

Pension Benefits – An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies. Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits – Upon the death of a non-retired member, the beneficiary receives in a lump sum the member’s account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lumpsum payment.

Contributions – The District pays the 6 percent of regular employee’s covered payroll. The District did not make any optional contributions to member IAP accounts for the year ended June 30, 2017.

OTHER POST EMPLOYMENT BENEFITS (OPEBs)

Retirement Health Insurance Account

Plan Description – As a member of Oregon Public Employees Retirement System (OPERS) the District contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by the OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. The plan, which was established under Oregon Revised Statutes (ORS) 238.420, provided for a payment of up to \$60 per month toward the costs of Medicare companion health insurance for eligible retirees. A comprehensive annual financial report of the funds administered by the OPERS may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700 or by accessing the PERS website at www.oregon.gov/PERS/.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Funding Policy – Participating school districts are contractually required to contribute at a rate assessed each year by the OPERS: rates for the year ended June 30, 2017 were 0.53% of annual covered OPERF payroll and 0.45% of covered OPSRP payroll. The OPERS Board of Trustees sets the rates based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The District’s contributions to RHIA for the years ended June 30, 2017, 2016, and 2015 were \$178,408, \$170,929, and \$178,939, which equaled the required contributions each year.

Early Retirement Program

The District sponsors an early retirement program with two main plans: stipend benefits and medical benefits. Both plans are valued on an actuarial basis. The most recent actuarial valuation date was June 30, 2017. As of the most recent valuation date, program participants included 730 active employees and 97 retired employees or beneficiaries currently receiving benefits.

Early Retirement Incentives

Description - The District maintains early retirement supplement programs for teachers or administrators who retire with 10 to 15 years of regular service to the District. The programs provide a stipend that, depending on age and years of service at retirement, ranges from \$200 to \$475 per month for a full-time employee for up to 7 years or age 65, whichever occurs first. This pension-type benefit is required to be valued under GASB Statement No. 73. The District does not issue a standalone report for this plan.

Funding Policy

The District provides payments in accordance with current contracts on a pay-as-you-go basis. At June 30, 2017, the District was providing early retirement benefits to 40 former teachers or administrators.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan. Instead, the activities of the plan are reported in the Governmental Funds as the incentive payments are paid. During the year ended June 30, 2017, governmental fund expenditures related to early retirement stipend benefits totaled \$225,057.

Total Pension Liability

The District’s total pension liability of \$1,998,465 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date using the Entry Age Normal Level Percent of Pay Cost Method.

Actuarial assumptions and other inputs

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

Inflation rate	2.50%
Salary increases, average, including inflation	3.50%
Discount rate	3.58%

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Actuarial assumptions and other inputs (continued)

- The discount rate is based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The index used is the Bond Buyer 20-Year GO Municipal Bond Index.
- Employer funding policy is on a pay-as-you-go cash basis.
- Mortality rates were generally the same rates as used in the December 31, 2015 PERS actuarial valuation.
- The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total Pension Liability

	Total Pension Liability
Balance at July 1, 2016	\$ 2,978,341
Changes for the year:	
Service cost	66,989
Interest on Total Pension Liability	104,020
Differences between expected and actual experience	(1,028,202)
Changes in assumptions or other inputs	22,822
Benefit payments - Stipends	(145,505)
Net changes	(979,876)
Balance at June 30, 2017	<u>\$ 1,998,465</u>

Changes in assumptions and benefit terms reflect a change in the discount rate from 3.00% in 2016 to 3.58% in 2017. All other changes reflect the implementation of GASB Statement No. 73 in 2017.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

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

	<i>1% Decrease</i> <i>(2.58%)</i>	<i>Discount Rate</i> <i>(3.58%)</i>	<i>1% Increase</i> <i>(4.58%)</i>
Total Pension Liability on June 30, 2017	\$ 2,105,412	\$ 1,998,465	\$ 1,894,516

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Stipends

For the year ended June 30, 2017, the District recognized stipend pension expense of \$77,311. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the stipend plan from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred (Inflow) of Resources</u>
Difference between expected and actual experience	\$ -	\$ (932,377)
Changes of assumptions and other inputs	20,695	-
Total deferred outflow (inflow) of resources	<u>\$ 20,695</u>	<u>\$ (932,377)</u>
Net deferred outflow (inflow) of resources, amortized below		<u>\$ (911,682)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to stipends will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ (93,698)
2019	(93,698)
2020	(93,698)
2021	(93,698)
2022	(93,698)
Thereafter	(443,192)
Total	<u>\$ (911,682)</u>

Postemployment Healthcare Benefits

Description - The District, as a result of collective bargaining agreements, offers postemployment health care benefits for qualified employees as described in the summary of significant accounting policies section of this report. The District does not issue a standalone report for this plan.

Funding Policy

The District provides payments in accordance with current employee contracts on a pay-as-you-go basis. At June 30, 2017, the District was providing early retirement incentive health care benefits to 81 former employees.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan. Instead, the activities of the plan are reported in the Governmental Funds as the insurance benefits are paid. Governmental fund expenditures related to early retirement insurance benefits totaled \$555,349 during the year ended June 30, 2017.

The actuarially determined total OPEB liability is recorded in the Statement of Net Position as more fully described below.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Postemployment Health Insurance Subsidy

Plan Description - The District operates a single-employer retiree benefit plan that provides postemployment health, dental and vision insurance benefits to eligible employees and their spouses. There are 118 retired members in the plan. As of the date of the valuation, 684 active members are or will become eligible to participate in the plan, assuming they meet eligibility requirements by the time they retire. Benefits and eligibility for members are established through bargaining agreements and state law.

Funding Policy

The level of benefits provided by the plan is generally the same as that afforded to active employees. Coverage is provided to retirees, spouses, and domestic partners until they become eligible for Medicare, typically age 65, and eligible dependents until age 26. The District's post-retirement healthcare subsidy plan was established in accordance with Oregon Revised Statutes (ORS) 243.303, which stipulates that for establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees. The difference between retiree claims costs (which, because of the effect of age, is generally higher in comparison to all plan members) and the amount of retiree healthcare premiums represents the District's implicit rate subsidy.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan. Instead, the activities of the plan are reported in the Governmental Funds.

The benefits from this program are paid by either the District or the retired employees on a contributory or self-pay basis. Required contributions are financed on a pay-as-you go basis. There is no obligation on the part of the District to fund these benefits in advance.

Total OPEB Liability

The District's total OPEB liability of \$11,305,961 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date using the Entry Age Normal Level Percent of Pay Cost Method.

Actuarial assumptions and other inputs

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

Inflation rate	2.50%
Salary increases, average, including inflation	3.50%
Discount rate	3.58%
Healthcare cost trend rates (8% initial rate increase, decreasing to 5% over six years for Moda plans, 5% for all years for Kaiser plans)	8.00%

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Actuarial assumptions and other inputs (continued)

- The discount rate is based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The index used is the Bond Buyer 20-Year GO Municipal Bond Index.
- Employer funding policy is on a pay-as-you-go cash basis.
- Mortality rates were generally the same rates as used in the December 31, 2015 PERS actuarial valuation.
- The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2016	\$ 12,157,952
Changes for the year:	
Service cost	454,740
Interest on Total OPEB Liability	422,738
Differences between expected and actual experience	(944,510)
Changes in assumptions or other inputs	(85,678)
Benefit payments - Medical premiums	(497,385)
Benefit payments - Implicit subsidy	(201,896)
Net changes	(851,991)
Balance at June 30, 2017	<u>\$ 11,305,961</u>

Changes in assumptions and benefit terms reflect a change in the discount rate from 3.00% in 2016 to 3.58% in 2017. All other changes reflect the implementation of GASB Statement No. 75 in 2017.

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

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

	<i>1% Decrease</i> <i>(2.58%)</i>	<i>Discount Rate</i> <i>(3.58%)</i>	<i>1% Increase</i> <i>(4.58%)</i>
Total OPEB Liability on June 30, 2017	\$ 12,163,829	\$ 11,305,961	\$ 10,510,302

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Trend Rates

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

	<u>1% Decrease</u>	<u>Current Healthcare Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability on June 30, 2017	\$ 10,765,522	\$ 11,305,961	\$ 11,938,495

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

For the year ended June 30, 2017, the District recognized OPEB expense of \$764,888. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the medical benefits plan from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred (Inflow) of Resources</u>
Difference between expected and actual experience	\$ -	\$ (841,284)
Changes of assumptions and other inputs	-	(76,314)
Total deferred outflow (inflow) of resources	<u>\$ -</u>	<u>\$ (917,598)</u>
Net deferred outflow (inflow) of resources, amortized below		<u>\$ (917,598)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to medical benefits will be recognized in OPEB expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ (112,590)
2019	(112,590)
2020	(112,590)
2021	(112,590)
2022	(112,590)
Thereafter	(354,648)
Total	<u>\$ (917,598)</u>

RISK MANAGEMENT

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 for which the District purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in prior years in any of the major categories of risk. The amounts of any settlements have not exceeded insurance coverage for the past three fiscal years.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

RISK MANAGEMENT (Continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

The District's unemployment claims are recorded as a payable throughout the District's various funds. Claims activity, including estimated incurred but not reported claims, for the fiscal years ended June 30, 2017, 2016, and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning accrued claims liability	\$ 197,492	\$ 313,168	\$ 324,202
Claims liability adjustments	(110,000)	(100,000)	-
Claims payments	(26,186)	(15,676)	(11,034)
	<hr/>	<hr/>	<hr/>
Accrued claims liability, June 30	\$ 61,306	\$ 197,492	\$ 313,168
	<hr/>	<hr/>	<hr/>

BUDGET COMPLIANCE

Over-Expenditure of Appropriations and Deficit Fund Balance

Oregon law prohibits expenditures in excess of board approved appropriations. The board approves appropriations for each fund by major function. For the year ended June 30, 2017, expenditures exceeded appropriations as follows:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
Other Nonmajor Funds			
Grants Fund			
Support Services	\$ 866,000	\$ 866,561	\$ (561)
Debt Service	85,000	86,950	(1,950)

The following funds reported a deficit fund balance as of June 30, 2017:

	<u>Deficit Fund</u> <u>Balance</u>
Debt Service	\$ (29,702)
Capital Projects	\$ (645,088)

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

BUDGET COMPLIANCE (Continued)

Budgetary Basis of Accounting

While the District reports financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The detailed Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented as RSI for each major governmental fund and other supplementary information for nonmajor governmental funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budget basis and GAAP basis are as follows:

	<u>General Fund</u>	<u>Other Nonmajor Funds</u>
Budget basis ending fund balance	\$ 14,130,565	\$ 967,516
Adjustments:		
Inventory	72,046	26,903
GAAP basis ending fund balance	<u>\$ 14,202,611</u>	<u>\$ 994,419</u>

TAX ABATEMENTS

Tax abatements result from agreements between Clackamas County and others, which reduced the District’s levied property taxes. As of June 30, 2017, the District was not materially affected by tax abatement agreements.

NEW PRONOUNCEMENTS

For the fiscal year ended June 30, 2017, the District implemented the following new accounting standards:

GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.” The statement establishes accounting and financial reporting requirements related to pensions provided by governments that are not within the scope of GASB Statement No. 68, extending that approach to all pensions.

GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. It requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Although the statement is effective for fiscal years beginning after June 15, 2017, the District early implemented this statement in the current year.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

NEW PRONOUNCEMENTS (Continued)

GASB Statement No. 77, “*Tax Abatement Disclosures,*” addresses the disclosure requirements for governments that have tax abated properties in their jurisdiction. It requires governments to disclose a description of the tax abatement program, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of the tax abatement agreement. The pronouncement had no significant effect on the financial statements.

GASB Statement No. 78 “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*” This Statement amends the scope and applicability of statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria. There was no significant financial impact as a result of implementing this statement.

GASB Statement No. 82, “*An Amendment of GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*” This statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District will implement applicable new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 83 “*Certain Asset Retirement Obligations.*” This Statement establishes criteria for determining the timing and pattern or recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The statement is effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 84 “*Fiduciary Activities.*” This Statement establishes criteria and guidance for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes, as well as the reporting requirements for these fiduciary funds. The statement is effective for fiscal years beginning after December 15, 2018.

GASB Statement No. 85 “*Omnibus 2017.*” This Statement addresses practice issues identified during implementation of other GASB Statements, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 86 “*Certain Debt Extinguishment Issues.*” This Statement addresses the accounting and financial reporting for in-substance defeasement of debt where existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement is effective for fiscal years beginning after June 15, 2017.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

NEW PRONOUNCEMENTS (Continued)

GASB Statement No. 87 “Leases.” This Statement addresses the accounting and financial reporting for leases by governments, requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The statement is effective for fiscal years beginning after December 15, 2019.

CLAIMS AND LITIGATION

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, or expenditures which may be disallowed by the grantor agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Management has represented that there are no contingent liabilities that require disclosure or recognition in accordance with FASC section 450 and/or GASB Statement No. 10. Such contingent liabilities would include, but would not be confined to: notes or accounts receivable which have been discounted; pending suits; proceedings, hearings, or negotiations possibly involving retroactive adjustments; unsatisfied judgments or claims; taxes in dispute; endorsements or guarantees; and options.

SUBSEQUENT EVENTS

On August 15, 2017, the District sold \$160 million of the \$187 million of general obligation bonds approved by voters at the May 16, 2017 election, leaving \$27 million of bonds to be sold at a later date. Bonds were sold at a premium of \$17.6 million.

In September 2017, the District reached a settlement with its Lake Oswego High School softball team to settle their Title IX lawsuit that had been filed against the District in 2015. Principal terms of the settlement were the payment of the plaintiffs’ legal fees of \$262,500, commitments to install artificial turf at the softball field and construct an adjoining hitting barn with areas for concessions and announcing, and commitments to improve certain aspects of the girls’ extra-curricular sports programs. The legal fees are recorded as an expenditure in the financial statements for the year ended June 30, 2017.

On December 7, 2017, the District was served with a lawsuit alleging damages of approximately \$395,000 as a result of an injury a student sustained during a sports practice. While discovery has not yet commenced, the District believes its insurance coverage is adequate to cover liability, if any, from this matter.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

CHANGE IN ACCOUNTING PRINCIPLE

Based on the implementation of GASB Statement Nos. 73 and 75, the District restated beginning net position as follows:

<i>Net position as previously reported at June 30, 2016</i>	\$ (1,924,328)
<i>Prior period adjustment:</i>	
Removal of June 30, 2016 OPEB Liability	3,354,636
Net OPEB liability (measurement date as of June 30, 2016)	(15,136,293)
Removal of June 30, 2016 Stipend Long-Term Debt	<u>535,393</u>
Total prior period adjustment	<u>(11,246,264)</u>
<i>Net position as restated, at July 1, 2016</i>	<u><u>\$ (13,170,592)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR PERS
JUNE 30, 2017**

<i>Year Ended June 30,</i>	<i>Employer's proportion of the net pension liability (NPL)</i>	<i>Employer's proportionate share of the net pension liability (NPL) (1)</i>	<i>Employer's covered payroll (2)</i>	<i>NPL as a percentage of covered payroll</i>	<i>Plan fiduciary net position as a percentage of the total pension liability</i>
2017 (5)	0.31%	\$ 46,194,321	\$ 34,002,920	135.9%	80.5%
2016 (4)	0.29%	16,722,378	32,142,790	52.0%	91.9%
2015 (3)	0.30%	(6,730,334)	30,660,107	-22.0%	103.6%
2014	0.30%	15,152,274	30,731,648	49.3%	92.0%

Notes:

- (1) The amounts presented for each fiscal year were actuarially determined at December 31 and rolled forward to the measurement date.
- (2) Amounts for covered payroll use the prior year's data to match the measurement date used by the pension plan for each fiscal year.
- (3) The June 30, 2015 NPL reflects benefit changes from the Senate Bills 822 and 861.
- (4) The June 30, 2016 NPL reflects benefit changes from the Oregon Supreme Court's ruling in *Moro v. State of Oregon*, which overturned portions of Senate Bills 822 and 861.
- (5) The June 30, 2017 NPL reflects assumption changes reducing inflation rate from 2.75% to 2.50%, the long-term expected rate of return from 7.75% to 7.50%, the discount rate from 7.75% to 7.50% and the projected salary increases from 3.75% to 3.50%.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF CONTRIBUTIONS FOR PERS
JUNE 30, 2017

<i>Year Ended June 30,</i>	<i>Statutorily required contribution</i>	<i>Contributions in relation to the statutorily required contribution</i>	<i>Contribution deficiency (excess)</i>	<i>Employer's covered payroll</i>	<i>Contributions as a percent of covered payroll</i>
2017	\$ 1,831,393	\$ 1,831,393	\$ -	\$ 36,337,121	5.0%
2016	1,966,103	1,966,103	-	34,002,920	5.8%
2015	3,157,554	3,157,554	-	32,142,790	9.8%
2014	3,037,840	3,037,840	-	30,660,107	9.9%

The amounts presented for each fiscal year were actuarially determined at December 31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

LAKE OSWEGO SCHOOL DISTRICT NO.7J

SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY AND RELATED RATIOS

JUNE 30, 2017

Stipend Benefits

	<u>2017</u>
Service cost	\$ 66,989
Interest on Total Pension Liability	104,020
Differences between expected and actual experience	(1,028,202)
Changes in assumptions or other inputs	22,822
Benefit payments - Stipends	<u>(145,505)</u>
Net changes	(979,876)
Total Pension Liability at beginning of the year	<u>2,978,341</u>
Total Pension Liability at end of the year	<u><u>\$ 1,998,465</u></u>
Estimated covered employee payroll	\$ 26,718,000
Total Pension Liability as a percentage of covered employee payroll	7.48%

Notes:

There are no assets accumulated in a trust that meets the criteria in GASB Statement No. 73, paragraph 4, to pay related benefits.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2017

Medical Benefits

	<u>2017</u>
Service cost	\$ 454,740
Interest on Total OPEB Liability	422,738
Differences between expected and actual experience	(944,510)
Changes in assumptions or other inputs	(85,678)
Benefit payments - Medical premiums	(497,385)
Benefit payments - Implicit subsidy	<u>(201,896)</u>
Net changes	(851,991)
Total OPEB Liability at beginning of the year	<u>12,157,952</u>
Total OPEB Liability at end of the year	<u><u>\$ 11,305,961</u></u>
Estimated covered employee payroll	\$ 35,982,000
Total OPEB Liability as a percentage of covered employee payroll	31.42%

Notes:

There are no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4, to pay related benefits.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources	\$ 43,741,377	\$ 42,635,000	\$ 42,635,000	\$ 1,106,377
Intermediate Sources	1,142,922	955,000	955,000	187,922
State Sources	28,059,435	27,000,000	27,000,000	1,059,435
Federal Sources	13,095	-	-	13,095
Total Revenues	<u>72,956,829</u>	<u>70,590,000</u>	<u>70,590,000</u>	<u>2,366,829</u>
EXPENDITURES:				
Instruction	43,134,631	44,210,000	44,260,000	1,125,369
Support Services	22,683,849	23,070,000	23,070,000	386,151
Facilities Acquisition and Construction	-	1	1	1
Debt Service	3,644,800	3,800,000	3,800,000	155,200
Operating Contingency	-	1,000,000	950,000	950,000
Total Expenditures	<u>69,463,280</u>	<u>72,080,001</u>	<u>72,080,001</u>	<u>2,616,721</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,493,549	(1,490,001)	(1,490,001)	4,983,550
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1	1	(1)
Transfers out	(129,106)	(225,000)	(225,000)	95,894
Sale of/Compensation for Loss of Capital Assets	-	10,000	10,000	(10,000)
Total Other Financing Sources (Uses)	<u>(129,106)</u>	<u>(214,999)</u>	<u>(214,999)</u>	<u>85,893</u>
NET CHANGE IN FUND BALANCE	3,364,443	(1,705,000)	(1,705,000)	5,069,443
FUND BALANCE, Beginning of year	<u>10,766,122</u>	<u>5,800,000</u>	<u>5,800,000</u>	<u>4,966,122</u>
FUND BALANCE, End of year	<u>\$ 14,130,565</u>	<u>\$ 4,095,000</u>	<u>\$ 4,095,000</u>	<u>\$ 10,035,565</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – COMMUNITY CONTRIBUTIONS FUND
YEAR ENDED JUNE 30, 2017**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources	\$ 1,733,881	\$ 2,518,000	\$ 2,518,000	\$ (784,119)
EXPENDITURES:				
Instruction	1,658,392	2,220,000	2,220,000	561,608
Support Services	34,964	165,000	165,000	130,036
Facilities Acquisition and Construction	-	78,000	78,000	78,000
Debt Service	64,695	110,000	110,000	45,305
Total Expenditures	<u>1,758,051</u>	<u>2,573,000</u>	<u>2,573,000</u>	<u>814,949</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(24,170)</u>	<u>(55,000)</u>	<u>(55,000)</u>	<u>30,830</u>
FUND BALANCE, Beginning of year	<u>196,121</u>	<u>55,000</u>	<u>55,000</u>	<u>141,121</u>
FUND BALANCE, End of year	<u>\$ 171,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,951</u>

OTHER SUPPLEMENTARY INFORMATION

LAKE OSWEGO SCHOOL DISTRICT NO.7J**DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources:				
Taxes-Current Levy	\$ 31,785,469	\$ 31,400,000	\$ 31,400,000	\$ 385,469
Taxes-Prior Levies	578,153	700,000	700,000	(121,847)
Local Option Taxes-Current Levy	9,460,428	8,830,000	8,830,000	630,428
Local Option Taxes-Prior Levy	182,388	220,000	220,000	(37,612)
Tuition	180,494	260,000	260,000	(79,506)
Earnings on Investments	285,585	100,000	100,000	185,585
Gate Receipts	41,840	60,000	60,000	(18,160)
Sports Participation Fees	578,345	550,000	550,000	28,345
Student Fees	62,254	50,000	50,000	12,254
Property Lease Fees	410,870	310,000	310,000	100,870
Miscellaneous Income	175,551	155,000	155,000	20,551
Total From Local Sources	<u>43,741,377</u>	<u>42,635,000</u>	<u>42,635,000</u>	<u>1,106,377</u>
Intermediate Sources:				
County School Fund	463	5,000	5,000	(4,537)
ESD Choice Fund	783,785	600,000	600,000	183,785
ESD Special Fund	358,674	350,000	350,000	8,674
Total From Intermediate Sources	<u>1,142,922</u>	<u>955,000</u>	<u>955,000</u>	<u>187,922</u>
State Sources:				
School Support Fund	27,222,017	26,300,000	26,300,000	922,017
Common School Fund	823,233	700,000	700,000	123,233
Miscellaneous Grants	14,185	-	-	14,185
Total From State Sources	<u>28,059,435</u>	<u>27,000,000</u>	<u>27,000,000</u>	<u>1,059,435</u>
Federal Sources:				
Federal Forest Fees	13,095	-	-	13,095
Other Sources:				
Interfund Transfers	-	1	1	(1)
Sales/Compensation for Loss of Fixed Assets	-	10,000	10,000	(10,000)
Total From Other Sources	<u>-</u>	<u>10,001</u>	<u>10,001</u>	<u>(10,001)</u>
Total Revenues	<u>\$ 72,956,829</u>	<u>\$ 70,600,001</u>	<u>\$ 70,600,001</u>	<u>\$ 2,356,828</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND (Continued)
YEAR ENDED JUNE 30, 2017**

EXPENDITURES:	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
Instruction:				
Regular Programs:				
Primary, K-5	\$ 9,159,896	\$ 4,395,407	\$ 46,859	\$ 342,454
Jr. High Programs	4,525,429	2,063,119	27,367	312,074
Jr. High School Extra-curricular	183,451	34,137	15,815	9,466
High School Programs	6,966,238	3,320,750	79,847	573,408
High School Extra-curricular	1,122,343	247,713	92,910	76,504
Special Programs:				
Talented and Gifted	217,433	108,877	143	1,264
More Restrictive Special Programs	2,611,635	1,422,985	1,290,134	69,594
Less Restrictive Special Programs	1,967,727	1,125,703	1,402	29,020
Alternative Education	165,175	69,777	158,946	9,990
English 2nd Language	180,803	71,842	492	491
Total Instruction	<u>27,100,130</u>	<u>12,860,310</u>	<u>1,713,915</u>	<u>1,424,265</u>
Support Services:				
Students:				
Student Safety Services	-	-	-	1,118
Guidance Services	1,232,245	615,256	1,702	10,140
Health Services	84,534	31,721	22,657	10,010
Psychological Services	280,281	113,951	5,059	9,671
Speech Pathology and Audiology	397,436	168,799	51,897	2,543
Service Direction, Student Support	176,764	58,429	14,424	8,468
Instructional Staff:				
Improvement of Instruction	551,087	411,481	262,009	91,361
Educational Media	425,638	307,779	9,597	41,911
Assessment and Testing	8,844	1,222	11,710	1,592
General Administration:				
Board of Education	-	-	397,018	83
Executive Administration	416,315	153,379	37,137	3,198
School Administration - Office of the Principal	2,467,697	1,178,429	45,353	37,211
Business:				
Fiscal Services	499,453	252,664	24,115	6,490
Operation & Maintenance of Plant	1,588,653	870,244	2,658,734	337,174
Student Transportation	-	-	3,323,302	3,715
Central Activities:				
Information	107,469	43,961	87,732	1,287
Staff	210,411	129,168	60,779	10,970
Technology	265,718	121,597	130,264	165,913
Supplemental Retirement Program	225,057	555,349	-	-
Total Support Services	<u>8,937,602</u>	<u>5,013,429</u>	<u>7,143,489</u>	<u>742,855</u>
Facilities Acquisition and Construction				
Facilities Acquisitions/Improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

CAPITAL OUTLAY	OTHER OBJECTS	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
\$ -	\$ -	\$ 13,944,616	\$ 14,091,915	\$ 14,091,915	\$ 147,299
-	-	6,927,989	7,338,377	7,338,377	410,388
-	-	242,869	253,052	253,052	10,183
-	-	10,940,243	11,387,578	11,387,578	447,335
6,000	30,011	1,575,481	1,480,934	1,530,934	(44,547)
-	-	327,717	372,771	372,771	45,054
-	-	5,394,348	5,425,573	5,425,573	31,225
-	-	3,123,852	3,161,732	3,161,732	37,880
-	-	403,888	467,651	467,651	63,763
-	-	253,628	230,417	230,417	(23,211)
<u>6,000</u>	<u>30,011</u>	<u>43,134,631</u>	<u>44,210,000</u>	<u>44,260,000</u>	<u>1,125,369</u>
-	-	1,118	-	-	(1,118)
-	650	1,859,993	1,934,855	1,934,855	74,862
-	-	148,922	112,968	112,968	(35,954)
-	-	408,962	463,097	463,097	54,135
-	-	620,675	629,495	629,495	8,820
-	-	258,085	268,125	268,125	10,040
-	670	1,316,608	1,254,065	1,254,065	(62,543)
-	-	784,925	821,975	821,975	37,050
-	-	23,368	21,707	21,707	(1,661)
-	11,042	408,143	232,500	232,500	(175,643)
-	10,421	620,450	626,724	626,724	6,274
-	2,628	3,731,318	3,661,549	3,661,549	(69,769)
-	3,026	785,748	775,803	775,803	(9,945)
308,950	373,384	6,137,139	6,527,739	6,527,739	390,600
-	-	3,327,017	3,556,806	3,556,806	229,789
-	-	240,449	170,115	170,115	(70,334)
-	3,938	415,266	419,381	419,381	4,115
131,765	-	815,257	723,096	723,096	(92,161)
-	-	780,406	870,000	870,000	89,594
<u>440,715</u>	<u>405,759</u>	<u>22,683,849</u>	<u>23,070,000</u>	<u>23,070,000</u>	<u>386,151</u>
-	-	-	1	1	1

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND (Continued)
YEAR ENDED JUNE 30, 2017**

EXPENDITURES (Cont.):	<u>SALARIES</u>	<u>EMPLOYEE BENEFITS</u>	<u>PURCHASED SERVICES</u>	<u>SUPPLIES & MATERIALS</u>
Debt Service	\$ -	\$ -	\$ -	\$ -
Operating Contingency	-	-	-	-
Total Expenditures	<u>\$ 36,037,732</u>	<u>\$ 17,873,739</u>	<u>\$ 8,857,404</u>	<u>\$ 2,167,120</u>
Excess of Revenues Over, (Under) Expenditures				
Other Financing Uses:				
Transfers Out				
Net Change in Fund Balance				
Beginning Fund Balance				
Ending Fund Balance				

<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
\$ -	\$ 3,644,800	\$ 3,644,800	\$ 3,800,000	\$ 3,800,000	\$ 155,200
-		-	1,000,000	950,000	950,000
<u>\$ 446,715</u>	<u>\$ 4,080,570</u>	<u>69,463,280</u>	<u>72,080,001</u>	<u>72,080,001</u>	<u>2,616,720</u>
		3,493,549	(1,480,000)	(1,480,000)	4,973,549
		<u>(129,106)</u>	<u>(225,000)</u>	<u>(225,000)</u>	<u>95,894</u>
		3,364,443	(1,705,000)	(1,705,000)	5,069,443
		<u>10,766,122</u>	<u>5,800,000</u>	<u>5,800,000</u>	<u>4,966,122</u>
		<u>\$ 14,130,565</u>	<u>\$ 4,095,000</u>	<u>\$ 4,095,000</u>	<u>\$ 10,035,565</u>

		<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
		\$ 1,320,000	\$ 2,000,000	\$ 2,000,000	\$ (680,000)
		413,881	518,000	518,000	(104,119)
		<u>1,733,881</u>	<u>2,518,000</u>	<u>2,518,000</u>	<u>(784,119)</u>
<u>Detail by Object</u>					
<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>				
\$ -	\$ -	975,237	1,093,000	1,093,000	117,763
7,552	-	343,538	432,000	432,000	88,462
-	-	1,757	-	-	(1,757)
-	-	306,386	681,000	681,000	374,614
28,473	-	28,473	11,000	11,000	(17,473)
-	-	3,001	3,000	3,000	(1)
<u>36,025</u>	<u>-</u>	<u>1,658,392</u>	<u>2,220,000</u>	<u>2,220,000</u>	<u>561,608</u>
-	-	697	20,000	20,000	19,303
-	-	-	45,000	45,000	45,000
-	-	25,406	20,000	20,000	(5,406)
<u>-</u>	<u>-</u>	<u>8,861</u>	<u>80,000</u>	<u>80,000</u>	<u>71,139</u>
<u>-</u>	<u>-</u>	<u>34,964</u>	<u>165,000</u>	<u>165,000</u>	<u>130,036</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>78,000</u>	<u>78,000</u>	<u>78,000</u>
<u>-</u>	<u>64,695</u>	<u>64,695</u>	<u>110,000</u>	<u>110,000</u>	<u>45,305</u>
<u>\$ 36,025</u>	<u>\$ 64,695</u>	<u>1,758,051</u>	<u>2,573,000</u>	<u>2,573,000</u>	<u>814,949</u>
		(24,170)	(55,000)	(55,000)	30,830
		<u>196,121</u>	<u>55,000</u>	<u>55,000</u>	<u>141,121</u>
		<u>\$ 171,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,951</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources:				
Taxes-Current Levy	\$ 6,730,010	\$ 6,700,000	\$ 6,700,000	\$ 30,010
Taxes-Prior Levies	128,605	165,000	165,000	(36,395)
Earnings on Investments	<u>76,093</u>	<u>7,000</u>	<u>7,000</u>	<u>69,093</u>
Total Revenues	<u>6,934,708</u>	<u>6,872,000</u>	<u>6,872,000</u>	<u>62,708</u>
EXPENDITURES:				
Debt Service:				
Long-Term Debt Service:				
Redemption of Principal	3,970,000	3,970,000	3,970,000	-
Interest	<u>2,901,576</u>	<u>2,902,000</u>	<u>2,902,000</u>	<u>424</u>
Total Expenditures	<u>6,871,576</u>	<u>6,872,000</u>	<u>6,872,000</u>	<u>424</u>
Excess of Revenues Over (Under) Expenditures	63,132	-	-	63,132
Beginning Fund Balance	<u>(92,834)</u>	<u>75,000</u>	<u>75,000</u>	<u>(167,834)</u>
Ending Fund Balance	<u>\$ (29,702)</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ (104,702)</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2017**

REVENUES:

- From Local Sources:
 - Construction Excise Tax
 - Interest Income
 - Contributions and Donations
- From Intermediate Sources:
 - SB 1149 Energy Program

Total Revenues

Detail by Object

	<u>SALARIES</u>	<u>EMPLOYEE BENEFITS</u>	<u>PURCHASED SERVICES</u>	<u>SUPPLIES & MATERIALS</u>
EXPENDITURES:				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	6,543
Facilities Acquisition and Service Direction	158,179	62,731	71,129	1,737
Debt Service	-	-	-	-
Operating Contingency	-	-	-	-
Total Expenditures	<u>\$ 158,179</u>	<u>\$ 62,731</u>	<u>\$ 71,129</u>	<u>\$ 8,280</u>

Excess of Expenditures Over Revenues

Other Financing Sources and (Uses):

- Proceeds from Issuance of Long-term Debt
- Transfers Out

Excess of Expenditures Over Revenues and Other Financing Sources

Beginning Fund Balance

Ending Fund Balance

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
\$	482,788	\$ 450,000	\$ 450,000	\$ 32,788
	11,047	5,000	5,000	6,047
	-	450,000	450,000	(450,000)
	122,228	425,000	425,000	(302,772)
	<u>616,063</u>	<u>1,330,000</u>	<u>1,330,000</u>	<u>(713,937)</u>

Detail by Object

<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>				
\$ -	\$ -	-	50,000	50,000	50,000
-	-	6,543	50,000	50,000	43,457
1,507,325	941	1,802,042	3,290,000	3,290,000	1,487,958
-	420,165	420,165	705,000	705,000	284,835
-	-	-	250,000	250,000	250,000
<u>\$ 1,507,325</u>	<u>\$ 421,106</u>	<u>2,228,750</u>	<u>4,345,000</u>	<u>4,345,000</u>	<u>2,116,250</u>
		(1,612,687)	(3,015,000)	(3,015,000)	1,402,313
		-	1,750,000	1,750,000	(1,750,000)
		-	(1)	(1)	1
		(1,612,687)	(1,265,001)	(1,265,001)	(347,686)
		967,599	1,500,001	1,500,001	(532,402)
		<u>\$ (645,088)</u>	<u>\$ 235,000</u>	<u>\$ 235,000</u>	<u>\$ (880,088)</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	SPECIAL REVENUE FUNDS				TOTAL NONMAJOR GOVERNMENTAL FUNDS
	GRANTS FUND	COMMUNITY SERVICES FUND	STUDENT ACTIVITY FUND	FOOD SERVICE FUND	
ASSETS:					
Cash and Investments	\$ 500	\$ 500	\$ 976,156	\$ 150	\$ 977,306
Interfund Receivables	14,234	253,136	-	214,896	482,266
Accounts Receivable	-	-	-	24,105	24,105
Grants Receivable	150,697	-	-	-	150,697
Prepaid Expenses	-	14,221	-	-	14,221
Inventory of Supplies	-	-	-	26,903	26,903
Total Assets	\$ 165,431	\$ 267,857	\$ 976,156	\$ 266,054	\$ 1,675,498
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payables	\$ 146,746	\$ -	\$ 119,740	\$ -	\$ 266,486
Accounts Payable	13,138	20,767	-	20,651	54,556
Unearned Revenue	5,547	247,090	-	107,400	360,037
Total Liabilities	165,431	267,857	119,740	128,051	681,079
Fund Balances:					
Nonspendable:					
Prepays	-	14,221	-	-	14,221
Inventory	-	-	-	26,903	26,903
Committed to:					
Community Support	-	(14,221)	-	111,100	96,879
Student Activities	-	-	856,416	-	856,416
Total Fund Balances	-	-	856,416	138,003	994,419
Total Liabilities and Fund Balances	\$ 165,431	\$ 267,857	\$ 976,156	\$ 266,054	\$ 1,675,498

LAKE OSWEGO SCHOOL DISTRICT NO.7J**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	SPECIAL REVENUE FUNDS				TOTAL NONMAJOR GOVERNMENTAL FUNDS
	GRANTS FUND	COMMUNITY SERVICES FUND	STUDENT ACTIVITY FUND	FOOD SERVICE FUND	
REVENUES:					
Local Sources:	\$ -	\$ 2,698,666	\$ 2,460,174	\$ 1,333,578	\$ 6,492,418
Intermediate Sources	118,800	-	-	-	118,800
State Sources	52,296	-	-	31,233	83,529
Federal Sources	1,559,218	-	-	394,827	1,954,045
Total Revenues	<u>1,730,314</u>	<u>2,698,666</u>	<u>2,460,174</u>	<u>1,759,638</u>	<u>8,648,792</u>
EXPENDITURES:					
Current:					
Instruction	785,175	-	2,616,705	-	3,401,880
Support Services	866,561	-	-	-	866,561
Enterprise and Community Services	-	2,779,145	-	1,665,662	4,444,807
Capital Outlay	-	-	-	-	-
Debt Service	86,950	48,636	-	42,429	178,015
Total Expenditures	<u>1,738,686</u>	<u>2,827,781</u>	<u>2,616,705</u>	<u>1,708,091</u>	<u>8,891,263</u>
Excess (Deficiency) of Revenues Over Expenditures	(8,372)	(129,115)	(156,531)	51,547	(242,471)
Other Financing Sources: Transfer In	<u>8,372</u>	<u>120,208</u>	<u>-</u>	<u>526</u>	<u>129,106</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	-	(8,907)	(156,531)	52,073	(113,365)
Increase (Decrease) in Inventories	-	-	-	(2,771)	(2,771)
Beginning Fund Balance	<u>-</u>	<u>8,907</u>	<u>1,012,947</u>	<u>88,701</u>	<u>1,110,555</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,416</u>	<u>\$ 138,003</u>	<u>\$ 994,419</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GRANTS FUND
YEAR ENDED JUNE 30, 2017**

REVENUES:

Local Sources:
 Contributions and Donations
Intermediate Sources:
 Grants-In-Aid
State Sources:
 Grants-In-Aid
Federal Sources:
 Grants-In-Aid

Total Revenues

Detail by Object

	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
EXPENDITURES:				
Instruction:				
Special Programs:				
More Restrictive Programs	\$ 2,440	\$ 2,180	\$ -	\$ -
Less Restrictive Programs	239,918	144,173	2,856	-
Title I Programs	235,700	153,974	2,610	1,324
Total Instruction	<u>478,058</u>	<u>300,327</u>	<u>5,466</u>	<u>1,324</u>
Support Services:				
Students:				
Nursing Services	76,094	22,252	-	-
Psychological Services	94,086	46,390	-	-
Service Direction, Student Support	272,893	131,063	3,059	-
Instructional Staff:				
Improvement of Instruction	68,876	14,033	95,403	6,656
Student Assessment	-	-	-	-
Central Activities:				
Indirect Costs	-	-	-	-
Total Support Services	<u>511,949</u>	<u>213,738</u>	<u>98,462</u>	<u>6,656</u>
Debt Service - Interest	-	-	-	-
Total Expenditures	<u>\$ 990,007</u>	<u>\$ 514,065</u>	<u>\$ 103,928</u>	<u>\$ 7,980</u>

Excess of Revenues Over Expenditures

Other Financing Sources:

 Transfer In

Beginning Fund Balance

Ending Fund Balance

		ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
		\$ -	\$ 4,000	\$ 4,000	\$ (4,000)
		118,800	46,000	46,000	72,800
		52,296	180,000	180,000	(127,704)
		<u>1,559,218</u>	<u>1,821,000</u>	<u>1,821,000</u>	<u>(261,782)</u>
		<u>1,730,314</u>	<u>2,051,000</u>	<u>2,051,000</u>	<u>(320,686)</u>
Detail by Object					
CAPITAL OUTLAY	OTHER OBJECTS				
\$ -	\$ -	4,620	-	-	(4,620)
-	-	386,947	925,000	775,000	388,053
-	-	393,608	325,000	325,000	(68,608)
-	-	<u>785,175</u>	<u>1,250,000</u>	<u>1,100,000</u>	<u>314,825</u>
-	-	98,346	-	-	(98,346)
-	-	140,476	-	-	(140,476)
-	30,031	437,046	411,000	561,000	123,954
-	5,725	190,693	250,000	250,000	59,307
-	-	-	12,500	12,500	12,500
-	-	-	<u>42,500</u>	<u>42,500</u>	<u>42,500</u>
-	35,756	866,561	716,000	866,000	(561)
-	86,950	86,950	85,000	85,000	(1,950)
\$ -	\$ 122,706	<u>1,738,686</u>	<u>2,051,000</u>	<u>2,051,000</u>	<u>312,314</u>
		(8,372)	-	-	(8,372)
		8,372	-	-	8,372
		-	-	-	-
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - COMMUNITY SERVICES FUND
YEAR ENDED JUNE 30, 2017**

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources, Community Service Activities:				
Extra-Curricular Activities	\$ 339	\$ -	\$ -	\$ 339
Community Services Tuition	1,204,156	1,371,000	1,371,000	(166,844)
Extended Child Care Fees	1,095,039	1,260,000	1,260,000	(164,961)
Driver's Ed. Fees	102,281	90,000	90,000	12,281
Pool Fees	146,031	150,000	150,000	(3,969)
Rent From School Facility	106,405	110,000	110,000	(3,595)
Contributions	44,415	-	-	44,415
Miscellaneous	-	10,000	10,000	(10,000)
Total Revenues	2,698,666	2,991,000	2,991,000	(292,334)
EXPENDITURES:				
Enterprise and Community Services				
Other Enterprise:				
Community Recreation:				
Salaries	648,737	690,000	690,000	41,263
Employee Benefits	127,422	150,000	150,000	22,578
Purchased Services	304,088	350,000	350,000	45,912
Supplies & Materials	356,019	345,000	345,000	(11,019)
Capital Outlay	-	5,000	5,000	5,000
Other Objects	10,752	10,000	10,000	(752)
Swim Pool:				
Salaries	90,598	130,000	130,000	39,402
Employee Benefits	30,692	35,000	35,000	4,308
Purchased Services	74,620	160,000	160,000	85,380
Supplies & Materials	23,948	20,000	20,000	(3,948)
Capital Outlay	45,234	25,000	25,000	(20,234)
Other Objects	596	1,000	1,000	404
Custody and Care of Children:				
Salaries	643,603	640,000	640,000	(3,603)
Employee Benefits	312,196	385,000	385,000	72,804
Purchased Services	51,533	40,000	40,000	(11,533)
Supplies & Materials	59,107	80,000	80,000	20,893
Capital Outlay	-	5,000	5,000	5,000
Total Enterprise and Community Services	2,779,145	3,071,000	3,071,000	291,855
Debt Service	48,636	70,000	70,000	21,364
Total Expenditures	2,827,781	3,141,000	3,141,000	313,219
Excess (Deficiency) of Revenues Over Expenditures	(129,115)	(150,000)	(150,000)	20,885
Other Financing Sources:				
Transfers In	120,208	150,000	150,000	(29,792)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources	(8,907)	-	-	(8,907)
Beginning Fund Balance	8,907	-	-	8,907
Ending Fund Balance	\$ -	\$ -	\$ -	\$ -

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - STUDENT ACTIVITY FUND
YEAR ENDED JUNE 30, 2017**

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources:				
Community Services Activities	\$ 2,460,174	\$ 3,050,000	\$ 3,050,000	\$ (589,826)
EXPENDITURES:				
Instruction:				
Regular Programs:				
Elementary-Extra-curricular:				
Supplies & Materials	87,706	175,000	175,000	87,294
Jr. High-Extra-curricular:				
Supplies & Materials	382,423	550,000	550,000	167,577
High School Extra-curricular:				
Supplies & Materials	2,146,576	2,525,000	2,525,000	378,424
Total Instruction	2,616,705	3,250,000	3,250,000	633,295
Excess (Deficiency) of Revenues Over Expenditures	(156,531)	(200,000)	(200,000)	43,469
Beginning Fund Balance	1,012,947	1,750,000	1,750,000	(737,053)
Ending Fund Balance	\$ 856,416	\$ 1,550,000	\$ 1,550,000	\$ (693,584)

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017**

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources - Food Service:				
Food Service Sales	\$ 1,285,361	\$ 1,210,000	\$ 1,210,000	\$ 75,361
Banquets & Miscellaneous	48,217	100,000	100,000	(51,783)
Total Local Sources - Food Service	1,333,578	1,310,000	1,310,000	23,578
State Sources:				
State Grants in Aid	31,233	20,000	20,000	11,233
Federal Sources:				
National School Lunch Reimbursement	281,559	340,000	340,000	(58,441)
USDA Commodities	113,268	75,000	75,000	38,268
Total Federal Sources	394,827	415,000	415,000	(20,173)
Total Revenues	1,759,638	1,745,000	1,745,000	14,638
EXPENDITURES:				
Enterprise and Community Services:				
Food Services:				
Salaries	514,799	520,000	520,000	5,201
Employee Benefits	268,923	250,000	250,000	(18,923)
Purchased Services	53,608	35,000	35,000	(18,608)
Supplies & Materials	815,714	905,000	905,000	89,286
Capital Outlay	-	10,000	10,000	10,000
Other Objects	12,618	5,000	5,000	(7,618)
Total Enterprise and Community Services	1,665,662	1,725,000	1,725,000	59,338
Debt Service - Other Objects	42,429	110,000	110,000	67,571
Total Expenditures	1,708,091	1,835,000	1,835,000	126,909
Excess (Deficiency) of Revenues Over Expenditures	51,547	(90,000)	(90,000)	141,547
Other Financing Sources:				
Transfer In	526	75,000	75,000	(74,474)
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures	52,073	(15,000)	(15,000)	67,073
Beginning Fund Balance	59,027	65,000	65,000	(5,973)
Ending Fund Balance	\$ 111,100	\$ 50,000	\$ 50,000	\$ 61,100

OTHER FINANCIAL SCHEDULES

LAKE OSWEGO SCHOOL DISTRICT NO.7J
DEPARTMENT OF EDUCATION SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2017

A. Energy Bill for Heating - **All Funds:**
 Please enter your expenditures for electricity
 & heating fuel for these Functions & Objects.

	Objects 325 & 326
Function 2540	\$ 942,641
Function 2550	-

B. Replacement of Equipment - **General Fund:**
 Include all General Fund expenditures in object 542, except for the following exclusions:
 Exclude these functions:

\$ 3,268

1113, 1122 & 1132	Co-curricular Activities	4150	Construction
1140	Pre-Kindergarten	2550	Pupil Transportation
1300	Continuing Education	3100	Food Service
1400	Summer School	3300	Community Services

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF FOUNDATION RECEIPTS, DEFERRED REVENUES, REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 2017**

Foundation deferred revenues as of June 30, 2016		\$	1,150,000
(Amounts received from Foundation in prior fiscal year for current fiscal year)			
Foundation donations to District for the fiscal year ended June 30, 2017:			
Total foundation donations received by District during the current fiscal year	<u>\$ 1,370,000</u>		
Allocation of donations to fiscal year:			
Donations received for current fiscal year	\$ -		170,000
Donations received in current fiscal year for the next fiscal year	<u>1,200,000</u>		<u>-</u>
Foundation Revenues recognized for fiscal year ended June 30, 2017			1,320,000
Foundation deferred revenues as of June 30, 2017	<u>\$ 1,200,000</u>		
Expenditure of foundation donations within the Community Contributions Fund:			
Teacher Salaries			853,229
Employee Benefits			402,076
Allocated PERS Debt Service Costs			<u>64,695</u>
Total Foundation expenditures			<u>1,320,000</u>
Excess of revenues over, (under) expenditures		\$	<u>-</u>

Foundation resources and expenditures thereof are accounted for within the district's Community Contributions Fund.
This schedule reflects the amounts within that Fund that relate solely to the Foundation.

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

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

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lake Oswego School District No. 7J, Clackamas County, Oregon (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 29, 2017.

Internal Control over Financial Reporting

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

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


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

Compliance and Other Matters

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

Purpose of this Report

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


CERTIFIED PUBLIC ACCOUNTANTS
December 29, 2017



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

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

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

Report on Compliance for Each Major Federal Program

We have audited Lake Oswego School District No. 7J, Clackamas County, Oregon's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

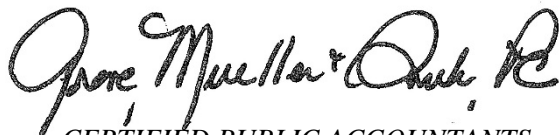
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the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

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

Purpose of this Report

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.


CERTIFIED PUBLIC ACCOUNTANTS
December 29, 2017

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

<u>Source/Grant Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION:			
Passed Through State Department of Education:			
Title IA	84.010	41092	\$ 385,960
Title IA	84.010	36008	<u>27,211</u>
Subtotal Title I Grants to Local Educational Agencies			<u>413,171</u>
IDEA Part B, Section 611	84.027	41547	881,764
IDEA Part B, Section 611	84.027	36893	106,019
IDEA Enhancement	84.027	42682	7,957
IDEA Extended Assessment	84.027	41977	900
IDEA Extended Assessment	84.027	35816	900
IDEA SPR & I	84.027	40871	<u>3,853</u>
Subtotal Special Education Grants to States			<u>1,001,393</u>
IDEA Part B, Section 619	84.173	37198	<u>2,790</u>
Subtotal Special Education Preschool Grants			<u>2,790</u>
Subtotal Special Education Cluster (IDEA)			<u>1,004,183</u>
Supporting Effective Instruction State Grants	84.367	36205	55,352
Supporting Effective Instruction State Grants	84.367	41347	<u>86,512</u>
Subtotal Supporting Effective Instruction State Grants			<u>141,864</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,559,218</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through State Department of Education:			
School Breakfast Program	10.553	N/A	25,865
National School Lunch Program	10.555	N/A	253,929
National School Lunch Program - Commodities	10.555	N/A	112,896
Summer Food Service Program for Children - Commodities	10.559	N/A	<u>372</u>
Subtotal Child Nutrition Cluster			<u>393,062</u>
State Administrative Expenses 2017	10.560	N/A	<u>1,765</u>
Subtotal State Administrative Expenses			<u>1,765</u>
Passed Through Clackamas County:			
Schools and Roads - Grants to State	10.665	N/A	<u>13,095</u>
Subtotal Forest Service Schools and Roads Cluster			<u>13,095</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>407,922</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,967,140</u>

See notes to schedule of expenditures of federal awards.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2017. 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"). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, where applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The District has not elected to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

Federal Financial Assistance

Pursuant to Uniform Guidance, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, non-monetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

Uniform Guidance establishes criteria to be used in defining major federal financial assistance programs. Major programs for the District are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in Uniform Guidance. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in notes to the financial statements. The Schedule includes all federal programs administered by the District for the year ended June 30, 2017.

Revenue and Expenditure Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded when measurable and available. Expenditures are recorded when the liability is incurred. Donated commodities are valued at their estimated fair value.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027 & 84.173	Special Education Cluster (IDEA)

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

FINANCIAL STATEMENT FINDINGS

None.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

None.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

We have audited, 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, the financial statements of Lake Oswego School District No. 7J, Clackamas County, Oregon (the District) as of and for the year ended June 30, 2017, and have issued our report thereon dated December 29, 2017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **State school fund factors and calculation.**

In connection with our testing nothing came to our attention that caused us to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

- The District incurred expenditures in excess of appropriations as disclosed in the notes to the financial statements.
- Two fund balances were in a deficit position as disclosed in the notes to the financial statements.

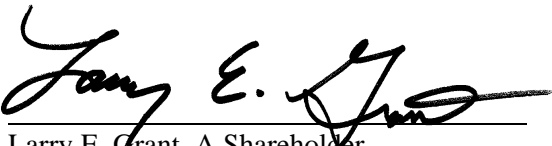
Internal Control

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting 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.

Restriction on Use

This report is intended solely for the information and use of the school board and management of the Lake Oswego School District No. 7J and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

*GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS*

By: 
Larry E. Grant, A Shareholder
December 29, 2017

STATISTICAL SECTION

LAKE OSWEGO SCHOOL DISTRICT NO.7J
BALANCE SHEETS - GENERAL FUND
LAST FIVE FISCAL YEARS

	As of June 30,				
	2013	2014	2015	2016	2017
ASSETS:					
Cash	\$ 12,287,821	\$ 12,192,925	\$ 13,858,303	\$ 17,906,664	\$ 20,288,257
Receivables:					
Taxes	2,260,279	2,140,226	2,164,181	2,443,337	2,589,420
Accounts	566,959	505,966	442,622	505,060	507,464
Prepays	51,070	42,820	35,097	86,573	58,487
Inventory of Supplies	89,920	73,192	68,990	60,822	72,046
Total Assets	\$ 15,256,049	\$ 14,955,129	\$ 16,569,193	\$ 21,002,456	\$ 23,515,674
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Interfund Payables	\$ 1,173,890	\$ 63,844	\$ 673,671	\$ 577,058	\$ 1,436,761
Intergovernmental Payable	151,976	196,297	246,678	289,546	335,772
Accrued Payroll and Benefits Payable	6,457,045	6,593,033	5,927,437	6,599,369	4,026,887
Accounts Payable	695,402	618,409	697,909	493,884	1,201,275
Unearned Revenue	38,352	73,636	10,510	9,680	7,747
Total Liabilities	8,516,665	7,545,219	7,556,205	7,969,537	7,008,442
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue-Taxes	1,921,882	1,730,319	1,855,449	2,205,975	2,304,621
FUND BALANCES:					
Nonspendable Prepays	51,070	42,820	35,097	86,573	58,487
Nonspendable Inventory	89,920	73,192	68,990	60,822	72,046
Unassigned	4,676,512	5,563,579	7,053,452	10,679,549	14,072,078
Total Fund Balances	4,817,502	5,679,591	7,157,539	10,826,944	14,202,611
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 15,256,049	\$ 14,955,129	\$ 16,569,193	\$ 21,002,456	\$ 23,515,674

LAKE OSWEGO SCHOOL DISTRICT NO.7J**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND
LAST FIVE FISCAL YEARS**

	For the Year Ended June 30,				
	2013	2014	2015	2016	2017
REVENUES:					
Local Sources:					
Taxes	\$ 33,527,166	\$ 34,483,139	\$ 37,231,275	\$ 39,756,068	\$ 42,006,438
Earnings on Investments	120,720	107,947	95,902	127,659	285,585
Other Local Sources	2,799,376	1,858,774	1,852,714	1,562,665	1,449,354
Intermediate Sources	367,765	342,860	525,574	1,044,943	1,142,922
State Sources	18,176,583	22,889,505	24,461,183	26,932,511	28,059,435
Federal Sources	35,202	34,390	34,241	38,716	13,095
Total Revenues	55,026,812	59,716,615	64,200,889	69,462,562	72,956,829
EXPENDITURES:					
Current:					
Instruction	34,089,602	35,910,750	38,361,592	40,775,418	43,128,631
Support Services	19,908,798	19,786,751	20,678,010	21,506,766	22,243,134
Capital Outlay	2,757,903	76,010	287,781	24,518	446,715
Debt Service:					
Principal	957,677	989,042	3,118,752	1,040,234	1,056,845
Interest	1,920,713	2,055,373	2,225,581	2,391,729	2,587,955
Total Expenditures	59,634,693	58,817,926	64,671,716	65,738,665	69,463,280
Excess (Deficiency) of Revenues Over Expenditures	(4,607,881)	898,689	(470,827)	3,723,897	3,493,549
OTHER FINANCING SOURCES (USES):					
Proceeds From Refunding of Long- Term Debt	-	-	2,137,209	-	-
Compensation for Loss of Capital Assets	25,100	7,875	2,375	-	-
Transfers Out	(22,604)	(27,747)	(186,607)	(46,324)	(129,106)
Total Other Financing Sources (Uses)	2,496	(19,872)	1,952,977	(46,324)	(129,106)
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	(4,605,385)	878,817	1,482,150	3,677,573	3,364,443
Increase (Decrease) in Inventories	12,861	(16,728)	(4,202)	(8,168)	11,224
FUND BALANCE, Beginning of Year	9,410,026	4,817,502	5,679,591	7,157,539	10,826,944
FUND BALANCE, End of Year	\$ 4,817,502	\$ 5,679,591	\$ 7,157,539	\$ 10,826,944	\$ 14,202,611