LAKE OSWEGO SCHOOL
DISTRICT NO. 7J
CLACKAMAS COUNTY, OREGON
FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016

Prepared by:
Business Services Department
* * * * * *

Stuart Ketzler
Director of Finance

BOARD OF DIRECTORS

Name	*Title*	*Term Expires*
Liz Hartman	Chair	June 30, 2017
Sarah Howell	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

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

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, 2016, 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 remaining fund information of Lake Oswego School District No. 7J, Clackamas County, Oregon as of June 30, 2016, 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.

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 funding progress for other postemployment benefits, 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, and the schedule of funding progress for other postemployment benefits 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* (CFR) 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 31, 2016, 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 31, 2016, 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 31, 2016

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, 2016.

Financial Highlights

- The liabilities and deferred inflows exceeded the assets and deferred outflows of resources of Lake Oswego School District at the close of the most recent fiscal year by $1,924,328 at June 30, 2016. Of this amount, $43,575,575 is invested in capital assets, net of related debt, $291,857 is restricted to the payment of the District's general obligation bonded debt, and the remainder, ($45,791,760), is unrestricted. The negative unrestricted portion of net position is due primarily to the District's net pension liability recorded under GASBS No. 68 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 decreased by $8,608,100 from the prior year's balance, due primarily to a significant increase in the District's net pension liability, offset in part by an increase in local property tax revenues and state resources.
- At June 30, 2016 the District's governmental funds reported combined ending fund balances of $13,008,385. $967,599 of this fund balance is restricted for capital projects and therefore is not available to meet the general obligations of the District.
- At June 30, 2016, the General Fund had an unassigned fund balance of $10,679,549, an increase of $3,626,097 from the prior year's unassigned fund balance of $7,053,452. 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.

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 non-major 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 - 46 of this report.

The Combining Statements referred to earlier in connection with non-major 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 were exceeded by liabilities and deferred inflows by $1,924,328 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, 2016	2015
Assets		
Current and Other Assets	$ 24,699,831	$ 20,413,502
Pension Asset	-	6,730,334
Net Capital Assets	106,853,910	109,071,741
Total Assets	131,553,741	136,215,577
Deferred Outflows of Resources	2,924,564	3,230,011
Total Assets and Deferred Outflows of Resources	134,478,305	139,445,588
Liabilities		
Other Liabilities	9,811,249	8,688,074
Long-Term Liabilities	106,091,300	111,086,923
Pension Liability	16,722,378	-
Total Liabilities	132,624,927	119,774,997
Deferred Inflows of Resources	3,777,706	12,986,819
Total Liabilities and Deferred Inflows of Resources	136,402,633	132,761,816
Net Position		
Net Investment in Capital Assets	43,575,575	42,160,791
Restricted	291,857	462,913
Unrestricted	(45,791,760)	(35,939,932)
Total Net Position	**$ (1,924,328)**	**$ 6,683,772**

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 net pension asset was eliminated and a net pension liability was recorded in fiscal year 2016 due largely to the Oregon Supreme Court's 2015 reversal in Moro vs. State of Oregon of the majority of legislative pension reforms enacted in 2013 and pension plan results through June 30, 2015 under GASBS No. 68. These assets or deferred outflows or liabilities or deferred inflows represent the District's estimated portion of the state PERS pension obligations recorded in the District's PERS statement of net position as more fully discussed in the footnotes beginning at page 33. Net capital assets have decreased due to the normal depreciation of depreciable capital assets.

The District's other liabilities have increased due primarily to increases in its accrued payroll, benefits payable and unearned revenue. Long-term debt obligations have decreased due to normal annual principal payments.

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 net pension liability, the District's net position decreased by $8,608,100 during the current fiscal year, offset in part by increased property tax revenues and state revenue sharing.

At the end of the current fiscal year, the District's net position - unrestricted shows a deficit balance of $45,791,760. 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, 2016 and 2015.

Statements of Activities

Year Ended June 30,

	2016		2015	
Revenues				
Program Revenues				
Charges for Services	$ 8,306,878	9.52%	$ 8,660,672	10.54%
Grants and Contributions	4,151,107	4.76%	4,804,600	5.85%
Total Program Revenues	12,457,985	14.28%	13,465,272	16.39%
General Revenues				
Property Taxes	46,579,744	53.40%	43,719,158	53.21%
State Revenue Sharing	26,951,808	30.90%	24,474,254	29.79%
Other Federal, State and Local Sources	1,076,585	1.23%	378,866	0.46%
Investment Earnings	169,076	0.19%	116,422	0.14%
Other	-	0.00%	2,375	0.01%
Total General Revenues	74,777,213	85.72%	68,691,075	83.61%
Total Revenues	87,235,198	100.00%	82,156,347	100.00%
Expenses				
Instruction	56,608,733	59.06%	37,958,641	54.29%
Support Services	25,952,740	27.08%	19,175,212	27.43%
Community Services	4,767,236	4.97%	3,978,522	5.69%
Facilities Acquisition and Construction	(34,027)	-0.04%	(21,947)	-0.03%
Depreciation and Amortization	3,010,680	3.14%	3,030,987	4.34%
Interest on Long-Term Debt	5,537,936	5.79%	5,794,224	8.28%
Total Expenses	95,843,298	100.00%	69,915,639	100.00%
Change in Net Position	(8,608,100)		12,240,708	
Net Position - Beginning	6,683,772		(5,556,936)	
Net Position - Ending	**$ (1,924,328)**		**$ 6,683,772**	

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 99% of general revenues and 84% and 83% of total revenues for the 2016 and 2015 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 9.52% and 10.54% of total revenues for the 2016 and 2015 fiscal years, respectively, and are comprised of the following items for which it is appropriate to charge tuition or fees:

	2016	2015
• Community services charges for enrichment and extended day care programs	$ 2,541,549	$ 2,687,954
• Food services charges not only for lunch and breakfast, but also for catering and contract services	1,280,385	1,226,367
• Tuition and fees are charged for participation in various extra-curricular activities and out-of-district students	4,484,944	4,746,351
Total Charges for Services:	$ 8,306,878	$ 8,660,672

Charges for extended care programs and tuition decreased due to the implementation of full-day kindergarten on a state funded basis in fiscal year 2016. Food service charges increased in fiscal year 2016 due to a modest fee increase. Grants and contributions represent 4.76% and 5.85% of total revenues for the 2016 and 2015 fiscal years, respectively, declining due to larger capital contribution in fiscal year 2015. Also included in this category is $397,928 and $363,172 for federal reimbursement and subsidy under the school lunch program for the 2016 and 2015 fiscal years, respectively. Other federal, state, and other grants for designated programs totaled $1,563,572 and $1,530,883, respectively. The balance is comprised primarily of contributions through the Lake Oswego School District Foundation, which was $815,000 in fiscal year 2016 and $1.6 million in fiscal year 2015, 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 59% and 54% of the total expenses of $95,843,298 and $69,915,639 for the 2016 and 2015 fiscal years, respectively. In addition, approximately half of the costs in supporting services relate to students, instructional staff and school administration.

	Total Cost of Services 2016	**Net Cost of Services** 2016	**Total Cost of Services** 2015	**Net Cost of Services** 2015
Instruction	$ 56,608,733	$ 50,668,570	$ 37,958,641	$ 30,725,705
Support Services	25,952,740	24,571,228	19,175,212	17,956,191
Community Services	4,767,236	540,300	3,978,522	(298,971)
Facilities Acquisition and Construction	(34,027)	(838,200)	(21,947)	(639,885)
Depreciation and Amortization	3,010,680	3,010,680	3,030,987	3,030,987
Interest on Long-Term Debt	5,537,936	5,432,735	5,794,224	5,676,340
Total	**$ 95,843,298**	**$ 83,385,313**	**$ 69,915,639**	**$ 56,450,367**

Total and net costs of services increased in fiscal year 2016 due primarily to the increase in pension expenses accompanying the PERS net pension liability and increased expenditures due to elimination of three unpaid staff days that had been in place since 2011, 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, 2016, the District's governmental funds reported combined ending fund balances of $13,008,385. Of this amount, $967,599 was related to debt-financed or restricted revenues for capital projects and is not available to meet general obligations of the District. Additionally, $177,069 is unspendable inventory and prepaid costs for use by various funds. $1,277,002 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 $10,586,715 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 $10,679,549, an increase of $3,626,097 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 $92,834 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 2017 and were due to prior collections for the current and prior year being less than expected.

The Capital Projects Fund had an ending fund balance of $967,599 for capital projects in progress that will be completed or begin in fiscal year 2017, or for payment of certain long-term obligations.

General Fund 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 $1.8 million and state revenue sources exceeded budgeted amounts by $1 million. There was a positive variance of $5.7 million above the $5.1 million budgeted for the ending fund balance. The only difference 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 $500,000 to support additional staff from slightly higher than anticipated enrollment. 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, 2016, amounts to $106,853,910, a decrease of $2,217,831 from the prior year amount of $109,071,741 (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 2.03% due to ongoing regular annual depreciation.

Capital Assets (Net of Depreciation)	**Governmental Activities Total School District**		**Percentage Change**
	2016	2015	
Land	$ 5,317,870	$ 5,317,870	0.00%
Buildings and Improvements	99,435,579	102,042,666	-2.55%
Vehicles, Equipment and Furniture	1,242,007	1,364,539	-8.98%
Construction in Progress	858,454	346,666	147.63%
Total	**$ 106,853,910**	**$ 109,071,741**	-2.03%

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

- Studies of its 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. Subject to final School Board action, a bond measure referral is expected in 2017 to address these capital asset issues.

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 $102,736,668, which does not include its Other Postemployment Benefit obligation liability of $3,354,636 or its net pension liability of $16,722,378. Of this $102,736,664, $94,075,340 is comprised of general obligation debt and pension obligation debt net of unamortized premiums and discounts, $8,125,935 comprises debts backed by the full faith and credit of the District and $535,393 comprises debt for future stipend payments to former employees retired under provisions of certain bargained agreements. The District's total debt decreased by $5,319,760 during the current fiscal year due to normal scheduled principal payments. Total debt decreased $4,917,070 during fiscal year 2015 due to normal scheduled principal payments.

Outstanding Long-Term Debt
Total School District

	2016	2015	**Percentage Change**
Bonded Debt	$ 94,075,340	$ 98,863,525	-5.1%
Other Long-Term Debt	8,661,328	9,192,903	-6.1%
Total	**$ 102,736,668**	**$ 108,056,428**	-5.2%

Moody's Investors Service confirmed the rating on the District's unlimited tax general obligation bonds was Aa2 in 2001. The ratings are primarily based on the District's large and diverse tax base, which continues to grow. These ratings remain unchanged at June 30, 2016.

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 $805 million, calculated as 7.95% of Real Market Value of $10.1 billion. This limit is significantly in excess of the District's outstanding general obligation debt of $56,120,000.

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, and $26.9 million for fiscal year 2016. With improved state funding for the 2015-17 biennium, offset in part by increased costs from the state-wide implementation of full-day kindergarten, it is presently estimated to be over $27 million for fiscal year 2017, which, while still inadequate, will allow the District, in combination with Foundation fund-raising, local option property tax revenues, and cost-cutting measures implemented within the past several years, as more fully discussed below, to retain its current program offerings and end the 2017 fiscal year with a positive fund balance, possibly even larger than its $10.7 million June 30, 2016 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, and $815,000 for fiscal year 2016. The Foundation expects to raise $1.25 million for fiscal year 2017. 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 recently 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 $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 $9.5 million in fiscal year 2017 as real market values continue to rebound at a rate higher than normal annual increases in assessed values. $9.05 million was budgeted for local option property taxes in fiscal year 2017; increases are very difficult to forecast. 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 will largely pay fiscal year 2017 debt service on this debt so it does not significantly impact the District's fiscal year 2017 General Fund budget, but all debt service payments beyond fiscal year 2017 will need to 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, 2016. Both associations approved one year extension of current terms through June 30, 2017.

- PERS recently 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, 2016 is 15.7% of adopted expenditures and it is possible the fund balance may also slightly exceed the upper 15% limit at the end of fiscal year 2017, but state funding for the 2017-19 biennium 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 Business Services, Lake Oswego School District, P.O. Box 70, Lake Oswego, Oregon 97034.

Heather Beck

Heather Beck
Superintendent

Stuart Ketzler
Executive Director of Finance/Deputy Clerk

BASIC FINANCIAL STATEMENTS

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
STATEMENT OF NET POSITION
JUNE 30, 2016

	PRIMARY GOVERNMENT	COMPONENT UNIT
ASSETS:		
Cash and Cash Equivalents	$ 20,624,678	$ -
Intergovernmental Receivables	-	289,546
Property Taxes and Other Receivables	3,898,084	11,794
Prepaids	86,573	-
Inventories	90,496	-
Capital Assets Not Being Depreciated	6,176,324	-
Capital Assets, Net of Accumulated Depreciation	100,677,586	-
Total Assets	131,553,741	301,340
DEFERRED OUTFLOWS OF RESOURCES		
PERS Pension Deferred Outflows	2,924,564	-
Total Assets and Deferred Outflows of Resources	134,478,305	301,340
LIABILITIES:		
Accounts Payable	653,207	3,193
Accrued Payroll, Taxes, and Employee Withholdings	6,599,369	-
Intergovernmental Payables	289,546	-
Unearned Revenue	1,558,415	-
Accrued Interest Payable	254,571	-
Vested Compensated Absences Payable	456,141	-
Long-term Liabilities:		
Due Within One Year	6,671,218	-
Due in More Than One Year	96,065,446	-
Net Pension Liability	16,722,378	-
Other Postemployment Benefit Obligation	3,354,636	-
Total Liabilities	132,624,927	3,193
DEFERRED INFLOWS OF RESOURCES		
PERS Pension Deferred Inflows	3,777,706	-
Total Liabilities and Deferred Inflows of Resources	136,402,633	3,193
NET POSITION:		
Net Investment in Capital Assets	43,575,575	-
Restricted for Debt Service	291,857	-
Unrestricted	(45,791,760)	298,147
Total Net Position	$ (1,924,328)	$ 298,147

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, 2016

FUNCTIONS	EXPENSES	FUNCTION REVENUES: CHARGES FOR SERVICES	FUNCTION REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	FUNCTION REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: PRIMARY GOVERNMENT	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: COMPONENT UNIT
Governmental Activities:						
Instruction	$ 56,608,733	$ 3,838,135	$ 2,102,028	$ -	$ (50,668,570)	$ -
Support Services	25,952,740	646,809	734,703	-	(24,571,228)	-
Community Services	4,767,236	3,821,934	405,002	-	(540,300)	-
Facilities Acquisition	(34,027)	-	-	804,173	838,200	-
Depreciation and Amortization	3,010,680	-	-	-	(3,010,680)	-
Interest on Long-Term Debt	5,537,936	-	105,201	-	(5,432,735)	-
Total Governmental Activities - Primary Government	$ 95,843,298	$ 8,306,878	$ 3,346,934	$ 804,173	(83,385,313)	-
Component Unit - Lake Grove Park	$ 152,908	$ 15,812	$ -	$ -	-	(137,096)

	PRIMARY GOVERNMENT	COMPONENT UNIT
General Revenues		
Taxes:		
Property Taxes, Levied for General Purposes	40,106,594	189,278
Property Taxes, Levied for Debt Service	6,473,150	-
State Revenue Sharing	26,951,808	-
Grants and Contributions Not Restricted to Specific Programs:		
Federal	38,716	-
State and Local Grants	1,037,869	-
Interest and Investment Earnings	169,076	5
Total General Revenues	74,777,213	189,283
Changes in Net Position	(8,608,100)	52,187
Net Position - Beginning	6,683,772	245,960
Net Position - Ending	$ (1,924,328)	$ 298,147

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, 2016

	GENERAL	SPECIAL REVENUE COMMUNITY CONTRIBUTIONS
ASSETS:		
Cash and Investments	$ 17,906,664	$ -
Interfund Receivables	-	1,374,680
Receivables:		
Taxes	2,443,337	-
Accounts	505,060	2,517
Grants	-	-
Prepaids	86,573	-
Inventory of Supplies	60,822	-
Total Assets	$ 21,002,456	$ 1,377,197
LIABILITIES AND FUND BALANCES:		
Liabilities		
Interfund Payables	$ 577,058	$ -
Intergovernmental Payable	289,546	-
Accrued Payroll and Benefits Payable	6,599,369	-
Accounts Payable	493,884	31,076
Unearned Revenue	9,680	1,150,000
Matured Bond and Coupons Payable	-	-
Total Liabilities	7,969,537	1,181,076
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	2,205,975	-
Fund Balances:		
Nonspendable:		
Prepaids	86,573	-
Inventory	60,822	-
Restricted for:		
Capital Projects	-	-
Committed to:		
Community Support	-	196,121
Student Activities	-	-
Unassigned	10,679,549	-
Total Fund Balances	10,826,944	196,121
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 21,002,456	$ 1,377,197

DEBT SERVICE	CAPITAL PROJECTS	OTHER NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
$ -	$ 1,704,167	$ 1,013,847	$ 20,624,678
-	-	554,634	1,929,314
424,395	-	-	2,867,732
-	461,768	20,697	990,042
-	-	40,310	40,310
-	-	-	86,573
-	-	29,674	90,496
$ 424,395	$ 2,165,935	$ 1,659,162	$ 26,629,145
$ 132,295	$ 1,188,581	$ 31,380	$ 1,929,314
-	-	-	289,546
-	-	-	6,599,369
-	9,755	118,492	653,207
-	-	398,735	1,558,415
244	-	-	244
132,539	1,198,336	548,607	11,030,095
384,690	-	-	2,590,665
-	-	-	86,573
-	-	29,674	90,496
-	967,599	-	967,599
-	-	67,934	264,055
-	-	1,012,947	1,012,947
(92,834)	-	-	10,586,715
(92,834)	967,599	1,110,555	13,008,385
$ 424,395	$ 2,165,935	$ 1,659,162	$ 26,629,145

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, 2016

Total Fund Balances - Governmental Funds		$ 13,008,385
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		106,853,910
Long-term pension 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 are applicable to future periods and, therefore, are not reported in the funds.		
PERS net pension asset (liability)	$ (16,722,378)	
Deferred inflows of resources related to pensions	(3,777,706)	
Deferred outflows of resources related to pensions	2,924,564	
		(17,575,520)
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		
Early Retirement Liability	(535,393)	
Compensated Absences Payable	(456,141)	
FF & C's Payable	(7,907,000)	
Accrued Interest Payable	(254,323)	
Notes Payable	(218,935)	
PERS Bonds Payable	(37,955,340)	
General Obligation Bonds Payable	(56,120,000)	
Other Postemployment Benefit Obligations	(3,354,636)	
		(106,801,768)
Unavailable Revenue Related to Property Taxes		2,590,665
Net Position		$ (1,924,328)

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, 2016

		SPECIAL REVENUE
	GENERAL	COMMUNITY CONTRIBUTIONS
REVENUES:		
Local Sources:		
Taxes	$ 39,756,068	$ -
Earnings on Investments	127,659	-
Other Local Sources	1,562,665	1,378,360
Intermediate Sources	1,044,943	-
State Sources	26,932,511	-
Federal Sources	38,716	-
Total Revenues	69,462,562	1,378,360
EXPENDITURES:		
Current:		
Instruction	40,775,418	1,217,468
Support Services	21,506,766	50,585
Enterprise and Community Services	-	-
Capital Outlay	24,518	87,656
Debt Service:		
Principal	1,040,234	-
Interest and Other Charges	2,391,729	34,064
Total Expenditures	65,738,665	1,389,773
Excess (Deficiency) of Revenues Over Expenditures	3,723,897	(11,413)
OTHER FINANCING SOURCES, (USES):		
Transfers In	-	-
Transfers Out	(46,324)	-
Total Other Financing Sources, (Uses)	(46,324)	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	3,677,573	(11,413)
Increase (Decrease) in Inventories	(8,168)	-
FUND BALANCE, Beginning of Year	7,157,539	207,534
FUND BALANCE, End of Year	$ 10,826,944	$ 196,121

DEBT SERVICE	CAPITAL PROJECTS	OTHER NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
$ 6,423,989	$ 624,976	$ -	$ 46,805,033
30,543	10,874	-	169,076
-	59,709	6,744,213	9,744,947
-	119,488	104,400	1,268,831
-	-	19,297	26,951,808
-	-	1,857,100	1,895,816
6,454,532	815,047	8,725,010	86,835,511
-	173,131	4,034,371	46,200,388
-	-	729,928	22,287,279
-	-	4,073,513	4,073,513
-	584,918	5,100	702,192
3,585,000	376,806	-	5,002,040
3,089,749	127,384	175,676	5,818,602
6,674,749	1,262,239	9,018,588	84,084,014
(220,217)	(447,192)	(293,578)	2,751,497
-	-	46,324	46,324
-	-	-	(46,324)
-	-	46,324	-
(220,217)	(447,192)	(247,254)	2,751,497
-	-	(20,585)	(28,753)
127,383	1,414,791	1,378,394	10,285,641
$ (92,834)	$ 967,599	$ 1,110,555	$ 13,008,385

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Total Net Changes in Fund Balances - Governmental Funds		$ 2,751,497
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 and post retirement obligations is an expense for the Statement of Net Position, but not the governmental funds.		5,790,268
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	$ 792,849	
Depreciation Expense	(3,010,680)	
		(2,217,831)
In the Statement of Activities, pension expense is adjusted based on the actuarially determined contribution changes.		
Net Change in PERS Pension liability/asset	(23,452,712)	
Net Change in PERS Pension deferred outflows of resources	(305,447)	
Net Change in PERS Pension deferred inflows of resources	9,209,113	
		(14,549,046)
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.		(28,753)
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.		(753,922)
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.		399,687
Change in Net Position of Governmental Activities		$ (8,608,100)

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 approximately $815,000 for the year ended June 30, 2016.

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

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)*

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

revenues include: (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.

Debt Service Fund - This fund accounts for the payment of principal and interest on general obligation bonded debt. Principal revenue sources are property taxes.

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.

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.

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)*

Basis of Presentation (Continued)

Special Revenue Funds (Continued)

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.

***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 one item that qualifies for reporting in this category, arising only under the accrual basis of accounting. As such, this item, *PERS deferred outflows*, which relates to PERS contributions, only appears 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 two items that qualify for reporting in this category. One item, *PERS deferred inflows*, arises only under a full accrual basis of accounting and only appears 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 that 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.

***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.

Some 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. Benefits under these agreements are funded on a current basis in the General Fund and recognized as a liability in the Statement of Net Position.

Other Postemployment Benefits

Eligible employees who elect supplemental retirement may be entitled to payment of group medical insurance premiums. The costs of these premiums are recorded as expenditures as they come due and are funded on a current basis.

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.

***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.

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, supplemental appropriations and 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, 2016:

	Carrying Value	*Fair Value*
Cash and Investments		
Cash on hand	$ 6,054	$ 6,054
Deposits with financial institutions	1,534,860	1,534,860
Investments	19,083,764	19,083,764
	$ 20,624,678	$ 20,624,678

CASH AND INVESTMENTS *(Continued)*

Deposits

The District's deposits with various financial institutions had a bank value of $2,337,863 and a book value of $1,534,860 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, 2016, $1,729,840 of the District's bank balances were covered by the PFCP. Time certificates of deposit are fully federally insured at June 30, 2016.

Investments

As of June 30, 2016, the District held the following investments and maturities:

Investment type	*Fair Value*	*Weighted Average Maturity in years*	*% of portfolio*
Treasury bills	$ 399,137	0.500	2%
Local Government Investment Pool	18,684,627	0.003	98%
	$ 19,083,764	0.013	100%

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.

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, 2016, 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.

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:

Investment Type	***Maximum % of Portfolio***	***Maximum length to maturity***
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, 2016:

Property taxes receivable	
General Fund	$ 2,443,337
Debt Service Fund	424,395
Total property taxes receivable	2,867,732
Accounts and grants receivable	
General Fund	505,060
Community Contributions Fund	2,517
Capital Projects Fund	461,768
Other Nonmajor Governmental Funds	61,007
Total accounts and grants receivable	1,030,352
Total	$ 3,898,084

INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2016 is as follows:

	Due from Other Funds	Due to Other Funds
General	$ -	$ 577,058
Community Contributions	1,374,680	-
Capital Projects	-	1,188,581
Debt Service	-	132,295
Other Nonmajor Governmental Funds	554,634	31,380
Total	$ 1,929,314	$ 1,929,314

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:

	Balances July 1, 2015	Increases	Decreases	Balances June 30, 2016
Capital assets not being depreciated:				
Land	$ 5,317,870	$ -	$ -	$ 5,317,870
Construction in progress	346,666	672,805	(161,017)	858,454
Total Capital Assets Not Being Depreciated	5,664,536	672,805	(161,017)	6,176,324
Capital assets being depreciated:				
Buildings and improvements	143,247,968	161,017	-	143,408,985
Vehicles and equipment	4,171,249	120,044	-	4,291,293
Total Capital Assets Being Depreciated	147,419,217	281,061	-	147,700,278
Less accumulated depreciation for:				
Buildings and improvements	(41,205,302)	(2,768,104)	-	(43,973,406)
Vehicles and equipment	(2,806,710)	(242,576)	-	(3,049,286)
Total Accumulated Depreciation	(44,012,012)	(3,010,680)	-	(47,022,692)
Total Capital Assets Being Depreciated, net	103,407,205	(2,729,619)	-	100,677,586
Total Capital Assets, net	$ 109,071,741	$ (2,056,814)	$ (161,017)	$ 106,853,910

LONG-TERM DEBT

The following is a summary of long-term debt transactions during the year ended June 30, 2016:

	Original Issue	***Outstanding July 1, 2015***	***Issued***	***Matured and Redeemed***	***Outstanding June 30, 2016***	***Amounts Due in One Year***
General obligation bonds used for Capital Purposes:						
August 4, 2005	$ 80,740,000	$ 59,705,000	$ -	$ (3,585,000)	$ 56,120,000	$ 3,970,000
Pension Bonds:						
October 2002	23,926,732	18,695,927	-	(479,713)	18,216,214	487,132
April 2003	16,302,037	12,343,248	-	(442,520)	11,900,728	437,966
August 2011	1,660,000	1,660,000	-	-	1,660,000	-
Total pension bonds		32,699,175	-	(922,233)	31,776,942	925,098
Total		92,404,175	-	(4,507,233)	87,896,942	4,895,098
Accretion of discount		6,459,350	753,635	(1,034,587)	6,178,398	1,077,429
Total bonds payable		98,863,525	753,635	(5,541,820)	94,075,340	5,972,527
Notes payable		249,742	-	(30,807)	218,935	32,303
Full faith and credit obligations		8,371,000	-	(464,000)	7,907,000	477,000
Early retirement		572,161	140,835	(177,603)	535,393	189,388
Total		$ 108,056,428	$ 894,470	$ (6,214,230)	$ 102,736,668	$ 6,671,218

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.	$ 56,120,000
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.	18,216,214
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.	11,900,728
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	6,178,398
Notes payable	218,935
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.	7,907,000
Early retirement incentive	535,393
Total long-term debt	$ 102,736,668

LONG-TERM DEBT *(Continued)*

Future maturities on bonds are as follows:

Fiscal Year Ending June 30,	***Principal***	***Interest***	***Total***
2017	$ 4,895,098	$ 5,562,803	$ 10,457,901
2018	5,315,951	5,540,036	10,855,987
2019	5,769,048	5,487,470	11,256,518
2020	6,267,936	5,437,699	11,705,635
2021	7,933,158	4,278,382	12,211,540
2022-2026	49,690,751	11,983,214	61,673,965
2027-2028	8,025,000	595,524	8,620,524
	$ 87,896,942	$ 38,885,128	$ 126,782,070

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.

Notes 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.

***LONG-TERM DEBT** (Continued)*

Future debt service requirements on notes payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 32,303	$ 10,125	$ 42,428
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
	$ 218,935	$ 35,638	$ 254,573

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 477,000	$ 201,233	$ 678,233
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
2022-2026	2,845,000	545,317	3,390,317
2027-2030	2,549,000	164,102	2,713,102
	$ 7,907,000	$ 1,590,803	$ 9,497,803

Compensated absences activity for the year is as follows:

	Outstanding July 1, 2015	Increases	Decreases	Outstanding June 30, 2016	Amount Due in One Year
Compensated absences	$ 497,151	$ 456,141	$ (497,151)	$ 456,141	$ 456,141

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

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2016 are as follows:

	Transfers In	Transfers Out
General fund	$ -	$ 46,324
Other nonmajor funds	46,324	-
Total	$ 46,324	$ 46,324

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 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/section/financial_reports/financials.aspx.

PERS Pension (Chapter 238)

The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.

Pension Benefits. The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, and 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefits results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

PENSION PLAN *(Continued)*

PERS Pension (Chapter 238) (Continued)

Death Benefits. Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided on or more of the following contributions are met:

- member was employed by PERS employer at the time of death,
- member died within 120 days after termination of PERS covered employment,
- member died as a result of injury sustained while employed in a PERS-covered job, or
- member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits. A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes After Retirement. Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value equity investments. Under ORS 238.360 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.

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.

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.

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.

***PENSION PLAN** (Continued)*

Oregon Public Service Retirement Plan Pension Program (OPSRP DB) (Continued)

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 date and a June 30, 2015 measurement date and 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, 2016 were $1,966,103, excluding amounts to fund employer specific liabilities.

At June 30, 2016, the District reported a net pension liability of $16,722,378 for its proportionate share of the net pension liability. The pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. 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, 2015, the District's proportion was 0.29 percent.

	Deferred Outflow of Resources	Deferred (Inflow) of Resources
Difference between expected and actual experience	$ 901,755	$ -
Net difference between projected and actual earnings on pension plan investments	-	(3,505,390)
Changes in proportionate share	-	(97,242)
Difference between employer contributions and employer's proportionate share of system contributions	56,706	(175,074)
Subtotal - Amortized Deferrals	958,461	(3,777,706)
District contributions subsequent to measurement date	1,966,103	-
Total deferred outflow (inflow) of resources	$ 2,924,564	$ (3,777,706)
Net deferred outflow (inflow) of resources		$ (853,142)
Net Amortized Deferrals (below)		$ (2,819,245)

PENSION PLAN *(Continued)*

Contributions (Continued)

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

Year ending June 30,	***Amount***
2016	$ (1,513,734)
2017	(1,513,734)
2018	(1,513,734)
2019	1,664,741
2020	57,216
Total	$ (2,819,245)

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated May 23, 2016. Oregon PERS produces an independently audited CAFR which can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/financial.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), (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.

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.

PENSION PLAN *(Continued)*

Actuarial Methods and Assumptions:

Valuation date	December 31, 2013
Experience Study Report	2014, published September 2015
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value of assets
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increase	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 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.

PENSION PLAN *(Continued)*

Actuarial Methods and Assumptions: (Continued)

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, 2015 PERS CAFR: page 58)

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	16.0 - 24.0	20.0
Alternative Equity	0.0 - 10.0	10.0
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 2013 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.

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	7.20%	4.70%	4.50%	6.60%
Short-Term Bonds	8.00	3.76	3.70	3.45
Intermediate-Term Bonds	3.00	4.23	4.10	5.15
High Yield Bonds	1.80	7.21	6.66	11.10
Large Cap US Equities	11.65	8.60	7.20	17.90
Mid Cap US Equities	3.88	9.38	7.30	22.00
Small Cap US Equities	2.27	10.38	7.45	26.40
Developed Foreign Equities	14.21	8.73	6.90	20.55
Emerging Market Equities	5.49	11.51	7.40	31.70
Private Equity	20.00	11.95	8.26	30.00
Hedge Funds/Absolute Return	5.00	6.46	6.01	10.00
Real Estate (Property)	13.75	7.27	6.51	13.00
Real Estate (REITS)	2.50	8.41	6.76	19.45
Commodities	1.25	7.71	6.07	19.70
Assumed Inflation - Mean			2.75%	2.00%

* Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of December 18, 2012, and the revised allocation adopted at the June 26, 2013 OIC Meeting.

Sensitivity - Sensitivity of the District's proportionate share of the net pension liability 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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	***Discount Rate (7.75%)***	***1% Increase (8.75%)***
District's proportionate share of the net pension liability (asset)	$ 40,358,837	$ 16,722,378	$ (3,196,947)

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

http://www.oregon.gov/pers/EMP/docs/er_general_information/opers_gasb_68_disclosure_information_revised.pdf

PENSION PLAN *(Continued)*

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 lump sum payment.

Contributions – Employees of the District pay 6 percent of their covered payroll. The District did not make any optional contributions to member IAP accounts for the year ended June 30, 2016.

OTHER POST EMPLOYMENT BENEFITS (OPEBs)

District Early Retirement Incentive Program

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.

Funding Policy

The District provides payments in accordance with current contracts on a pay-as-you-go basis. At June 30, 2016, the District was providing early retirement benefits to 37 former teachers or administrators. During the year ended June 30, 2016, governmental fund expenditures related to early retirement stipend benefits totaled $177,603.

Expenditures are recorded in the governmental funds as the incentive payments are paid. The present value of future incentive payments is recorded in the Statement of Net Position.

Postemployment Health Care 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.

OTHER POST EMPLOYMENT BENEFITS (OPEBs) *(Continued)*

Funding Policy

The District provides payments in accordance with current employee contracts on a pay-as-you-go basis. At June 30, 2016, the District was providing early retirement incentive health care benefits to 78 former employees.

Governmental fund expenditures related to early retirement insurance benefits totaled $518,002 during the year ended June 30, 2016.

Expenditures are recorded in the governmental funds as the related insurance premiums are paid. The present value of estimated insurance premiums is recorded in the Statement of Net Position.

Postemployment Health Insurance Subsidy

The District follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). The District reports its liability for other postemployment benefits consistent with established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

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.

The District's post-retirement healthcare plan was established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulate that for the purpose of 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 employer contribution.

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.

Funding Policy

The benefits from this program are paid by either the District or the retired employees on a self-pay or contributory 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.

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit cost (expense) is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance within the parameters of GASBS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Funding Policy (Continued)

The following table shows the components of the OPEB obligation at the end of the year:

	2016	2015	2014
Annual required contribution	$ 1,147,272	$ 1,122,679	$ 1,174,075
Interest on net OPEB obligation	90,915	82,724	74,033
Adjustment to annual required contribution	(154,614)	(140,685)	(122,236)
Annual OPEB cost	1,083,573	1,064,718	1,125,872
Contributions made	(759,435)	(791,702)	(836,152)
Increase in net OPEB obligation	324,138	273,016	289,720
Net OPEB obligation at beginning of year	3,030,498	2,757,482	2,467,762
Net OPEB obligation at end of year	$ 3,354,636	$ 3,030,498	$ 2,757,482

The District's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for fiscal years ended June 30 were as follows:

Fiscal Year Ended June 30	Annual OPEB cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 1,083,573	$ 759,435	70.1%	$ 3,354,636
2015	1,064,718	791,702	74.4%	3,030,498
2014	1,125,872	836,152	74.3%	2,757,482

Funded Status and Funding Progress – As of June 30, 2015, the most recent actuarial valuation date, the District's actuarial accrued liability (AAL) for benefits was $12,025,230, and the actuarial value of those assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $12,025,230. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will eventually present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – The actuarial cost method used to determine the cost and liabilities for this plan was the entry age normal actuarial cost method. Under this method, the unfunded value of all benefits expected to be paid from the plan is spread over the expected working career of all participants in such a way that annual costs are expected to remain level.

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Funding Policy (Continued)

The actuarial assumptions included a discount rate of 3 percent and a 100 percent assumption of participants will elect medical coverage at retirement. They also assume medical and prescription drug costs would increase at 8 percent inflation for the current year, grading down to an annual rate of 5 percent after six years which is consistent with expectations for long-term health care cost inflation. The demographic assumptions, such as mortality rates, disability incidence rates, retirement rates, and withdrawal rates, are the same as those used by Oregon PERS for School Districts.

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/.

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, 2016 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, 2016, 2015 and 2014 were $170,929, $178,939, and $173,103, which equaled the required contributions each year.

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 any of the past three fiscal years.

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, 2016, 2015 and 2014 are as follows:

RISK MANAGEMENT *(Continued)*

	2016	2015	2014
Beginning accrued claims liability	$ 313,168	$ 324,202	$ 331,710
Claims liability adjustments	(100,000)	-	(61)
Claims payments	(15,676)	(11,034)	(7,447)
Accrued claims liability, June 30	$ 197,492	$ 313,168	$ 324,202

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, 2016, expenditures exceeded appropriations as follows:

	Appropriation	Expenditure	Variance
General Fund			
Instruction	$ 40,660,000	$ 40,775,418	$ (115,418)
Other Nonmajor Funds			
Student Activity Fund			
Instruction	3,050,000	3,237,467	(187,467)

The following fund reported a deficit fund balance as of June 30, 2016:

	Deficit Fund Balance
Debt Service	$ (92,834)

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:

***BUDGET COMPLIANCE** (Continued)*

***Budgetary Basis of Accounting** (Continued)*

	General Fund	Other Nonmajor Funds
Budget basis ending fund balance	$ 10,766,122	$ 1,080,881
Adjustments:		
Inventory	60,822	29,674
GAAP basis ending fund balance	$ 10,826,944	$ 1,110,555

NEW PRONOUNCEMENTS

For the fiscal year ended June 30, 2016, the District implemented the following new accounting standards which had minor, if any, effect on the District's financial statements:

GASB Statement No. 72 "Fair Value Measurement and Application." The statement provides guidance on determining, accounting for, and reporting fair value measurements.

GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". This statement supersedes Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The District will implement 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. 73 "Pension Transition for Contributions Made Subsequent to the Measurement Date 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. The statement is effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The statement establishes accounting and financial reporting requirements related to other postemployment benefits plans, replacing GASB Statements No. 43 and No. 57. The statement is effective for fiscal years beginning after June 15, 2016.

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. The statement is effective for fiscal years beginning after June 15, 2016.

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 will require 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 statement is effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans," 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. The statement is effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants," addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The statement is effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14," amends the blending requirements for the financial statement presentation of component units of all state and local governments. The statement is effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 81, "Irrevocable Split-Interest Agreement," requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreement that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The statement is effective for fiscal years beginning after December 15, 2016.

GASB Statement No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73," 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) contributions requirements. The statement is effective for fiscal years beginning after June 15, 2016.

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.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE OSWEGO SCHOOL DISTRICT NO.7J

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR PERS

JUNE 30, 2016

Year Ended June 30,	*Employer's proportion of the net pension liability (NPL)*	*Employer's proportionate share of the net pension liability (NPL)*	*Employer's covered payroll*	*NPL as a percentage of covered payroll*	*Plan fiduciary net position as a percentage of the total pension liability*
2016	0.29%	$ 16,722,378	$ 32,142,790	52.0%	91.9%
2015	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%

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 CONTRIBUTIONS FOR PERS
JUNE 30, 2016

Year Ended June 30,	*Statutorily required contribution*	*Contributions in relation to the statutorily required contribution*	*Contribution deficiency (excess)*	*Employer's covered payroll*	*Contributions as a percent of covered payroll*
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 FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2015	$ -	$ 12,025,230	$ 12,025,230	0.0%	$ 32,176,706	37.37%
June 30, 2013	-	11,668,311	11,668,311	0.0%	30,731,648	37.97%
June 30, 2011	-	13,988,495	13,988,495	0.0%	30,394,461	46.02%

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, 2016

	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
REVENUES:				
Local Sources	$ 41,446,392	$ 39,435,000	$ 39,435,000	$ 2,011,392
Intermediate Sources	1,044,943	805,000	805,000	239,943
State Sources	26,932,511	25,930,000	25,930,000	1,002,511
Federal Sources	38,716	-	-	38,716
Total Revenues	69,462,562	66,170,000	66,170,000	3,292,562
EXPENDITURES:				
Instruction	40,775,418	40,160,000	40,660,000	(115,418)
Support Services	21,531,284	22,035,000	22,035,000	503,716
Facilities Acquisition and Construction	-	1	1	1
Debt Service	3,431,963	5,600,000	5,600,000	2,168,037
Operating Contingency	-	1,000,000	500,000	500,000
Total Expenditures	65,738,665	68,795,001	68,795,001	3,056,336
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,723,897	(2,625,001)	(2,625,001)	6,348,898
OTHER FINANCING SOURCES (USES):				
Proceeds from Refunding of Long-Term Debt	-	2,150,000	2,150,000	(2,150,000)
Transfers in	-	1	1	(1)
Transfers out	(46,324)	(225,000)	(225,000)	178,676
Sale of/Compensation for Loss of Capital Assets	-	10,000	10,000	(10,000)
Total Other Financing Sources (Uses)	(46,324)	1,935,001	1,935,001	(1,981,325)
NET CHANGE IN FUND BALANCE	3,677,573	(690,000)	(690,000)	4,367,573
FUND BALANCE, Beginning of year	7,088,549	5,800,000	5,800,000	1,288,549
FUND BALANCE, End of year	$ 10,766,122	$ 5,110,000	$ 5,110,000	$ 5,656,122

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, 2016

	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
REVENUES:				
Local Sources	$ 1,378,360	$ 2,518,000	$ 2,518,000	$ (1,139,640)
EXPENDITURES:				
Instruction	1,305,124	2,220,000	2,220,000	914,876
Support Services	50,585	165,000	165,000	114,415
Facilities Acquisition and Construction	-	78,000	78,000	78,000
Debt Service	34,064	110,000	110,000	75,936
Total Expenditures	1,389,773	2,573,000	2,573,000	1,183,227
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(11,413)	(55,000)	(55,000)	43,587
FUND BALANCE, Beginning of year	207,534	55,000	55,000	152,534
FUND BALANCE, End of year	$ 196,121	$ -	$ -	$ 196,121

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, 2016

	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
REVENUES:				
Local Sources:				
Taxes-Current Levy	$ 30,432,995	$ 29,600,000	$ 29,600,000	$ 832,995
Taxes-Prior Levies	575,220	850,000	850,000	(274,780)
Local Option Taxes-Current Levy	8,557,538	7,250,000	7,250,000	1,307,538
Local Option Taxes-Prior Levy	190,315	250,000	250,000	(59,685)
Tuition	222,106	260,000	260,000	(37,894)
Earnings on Investments	127,659	100,000	100,000	27,659
Gate Receipts	53,169	60,000	60,000	(6,831)
Sports Participation Fees	579,437	550,000	550,000	29,437
Student Fees	61,144	50,000	50,000	11,144
Property Lease Fees	443,340	310,000	310,000	133,340
Miscellaneous Income	203,469	155,000	155,000	48,469
Total From Local Sources	41,446,392	39,435,000	39,435,000	2,011,392
Intermediate Sources:				
County School Fund	682	5,000	5,000	(4,318)
ESD Choice Fund	685,142	450,000	450,000	235,142
ESD Special Fund	359,119	350,000	350,000	9,119
Total From Intermediate Sources	1,044,943	805,000	805,000	239,943
State Sources:				
School Support Fund	26,157,773	25,280,000	25,280,000	877,773
Common School Fund	774,738	650,000	650,000	124,738
Total From State Sources	26,932,511	25,930,000	25,930,000	1,002,511
Federal Sources:				
Federal Forest Fees	38,716	-	-	38,716
Other Sources:				
Proceeds From Issuance of Long-Term Debt	-	2,150,000	2,150,000	(2,150,000)
Interfund Transfers	-	1	1	(1)
Sales/Compensation for Loss of Fixed Assets	-	10,000	10,000	(10,000)
Total From Other Sources	-	2,160,001	2,160,001	(2,160,001)
Total Revenues	$ 69,462,562	$ 68,330,001	$ 68,330,001	$ 1,132,561

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, 2016

	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
EXPENDITURES:				
Instruction:				
Regular Programs:				
Primary, K-5	$ 8,626,239	$ 4,275,291	$ 46,932	$ 367,990
Jr. High Programs	4,323,203	2,080,754	27,999	200,602
Jr. High School Extra-curricular	182,651	34,043	14,520	5,973
High School Programs	6,647,682	3,144,149	72,638	282,048
High School Extra-curricular	1,039,324	230,633	90,059	47,389
Special Programs:				
Talented and Gifted	211,854	103,627	103	380
More Restrictive Special Programs	2,481,501	1,403,704	1,260,022	14,675
Less Restrictive Special Programs	1,909,178	1,042,862	11,158	24,607
Alternative Education	47,666	8,427	219,818	12,231
English 2nd Language	147,547	61,160	733	1,715
Total Instruction	25,616,845	12,384,650	1,743,982	957,610
Support Services:				
Students:				
Guidance Services	1,129,832	592,392	250	9,449
Health Services	80,473	31,541	3,098	4,249
Psychological Services	275,151	104,700	10,467	13,169
Speech Pathology and Audiology	403,290	186,503	1,315	2,504
Service Direction, Student Support	172,839	73,647	7,909	3,965
Instructional Staff:				
Improvement of Instruction	525,401	349,853	121,522	55,722
Educational Media	428,246	296,068	7,990	47,923
Assessment and Testing	22,011	148	2,163	1,027
General Administration:				
Board of Education	85,381	15,481	10,787	-
Executive Administration	371,685	127,230	53,349	6,086
School Administration - Office of the Principal	2,455,888	1,120,656	50,846	34,480
Business:				
Fiscal Services	495,815	252,609	27,695	2,563
Operation & Maintenance of Plant	1,563,730	900,484	2,918,834	477,261
Student Transportation			3,193,321	1,688
Central Activities:				
Information	95,064	44,644	62,941	1,179
Staff	216,376	117,249	37,499	39,297
Technology	267,519	134,301	66,582	231,255
Supplemental Retirement Program	177,603	518,002	-	-
Total Support Services	8,766,304	4,865,508	6,576,568	931,817
Facilities Acquisition and Construction				
Facilities Acquisitions/Improvements	$ -	$ -	$ -	$ -

CAPITAL OUTLAY	OTHER OBJECTS	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
$ -	$ -	$ 13,316,452	$ 13,237,009	$ 13,242,989	$ (73,463)
-	-	6,632,558	6,546,831	6,546,831	(85,727)
-	-	237,187	264,042	264,042	26,855
-	-	10,146,517	9,780,203	10,174,223	27,706
-	27,231	1,434,636	1,471,907	1,471,907	37,271
-	100	316,064	307,742	307,742	(8,322)
-	45,000	5,204,902	4,901,965	5,001,965	(202,937)
-	-	2,987,805	3,203,180	3,203,180	215,375
-	-	288,142	237,109	237,109	(51,033)
-	-	211,155	210,012	210,012	(1,143)
-	72,331	40,775,418	40,160,000	40,660,000	(115,418)
-	835	1,732,758	1,947,952	1,947,952	215,194
-	-	119,361	113,996	113,996	(5,365)
-	-	403,487	426,733	426,733	23,246
-	-	593,612	603,461	603,461	9,849
-	25	258,385	257,884	257,884	(501)
-	278	1,052,776	1,216,426	1,049,747	(3,029)
-	-	780,227	801,323	801,323	21,096
-	-	25,349	10,000	10,000	(15,349)
		111,649	232,500	232,500	120,851
-	1,341	559,691	398,811	565,490	5,799
-	2,240	3,664,110	3,551,732	3,551,732	(112,378)
-	17,389	796,071	763,893	763,893	(32,178)
24,518	344,237	6,229,064	5,862,844	5,862,844	(366,220)
-	-	3,195,009	3,602,706	3,602,706	407,697
-	-	203,828	161,795	161,795	(42,033)
-	224	410,645	405,517	405,517	(5,128)
-	-	699,657	727,427	727,427	27,770
-	-	695,605	950,000	950,000	254,395
24,518	366,569	21,531,284	22,035,000	22,035,000	503,716
$ -	$ -	$ -	$ 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, 2016

EXPENDITURES (Cont.):	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
Debt Service	$ -	$ -	$ -	$ -
Operating Contingency	-	-	-	-
Total Expenditures	$ 34,383,149	$ 17,250,158	$ 8,320,550	$ 1,889,427
Excess of Revenues Over, (Under) Expenditures				
Other Financing Uses:				
Transfers Out				
Net Change in Fund Balance				
Beginning Fund Balance				
Ending Fund Balance				

CAPITAL OUTLAY	OTHER OBJECTS	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
$ -	$ 3,431,963	$ 3,431,963	$ 5,600,000	$ 5,600,000	$ 2,168,037
-	-	-	1,000,000	500,000	500,000
$ 24,518	$ 3,870,863	65,738,665	68,795,001	68,795,001	3,056,335
		3,723,897	(465,000)	(465,000)	4,188,897
		(46,324)	(225,000)	(225,000)	178,676
		3,677,573	(690,000)	(690,000)	4,367,573
		7,088,549	5,800,000	5,800,000	1,288,549
		$ 10,766,122	$ 5,110,000	$ 5,110,000	$ 5,656,122

LAKE OSWEGO SCHOOL DISTRICT NO.7J

DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS) – COMMUNITY CONTRIBUTIONS FUND

YEAR ENDED JUNE 30, 2016

REVENUES:

Local Sources:

Contributions and Donations

Total Revenues

	Detail by Object			
	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
EXPENDITURES:				
Instruction:				
Regular Programs:				
Primary K-5	$ 301,630	$ 164,521	$ 10,569	$ 205,436
Jr. High Programs	89,022	46,961	80,180	-
High School Programs	125,149	53,653	-	138,947
High School Extra-curricular	-	-	-	1,400
Other Special Programs	-	-	-	
Total Instruction	515,801	265,135	90,749	345,783
Support Services:				
Pupils:				
Improvement of Instruction	-	-	375	2,376
Instructional Staff and Educational Media	-	-	-	20,722
School Administration - Office of the Principal	-	-	27,112	-
Business:				
Operation and Maintenance	-	-	-	-
Total Support Services	-	-	27,487	23,098
Facilities Acquisition and Construction	-	-	-	-
Debt Service	-	-	-	-
Total Expenditures	$ 515,801	$ 265,135	$ 118,236	$ 368,881

Excess of Revenues Over (Under) Expenditures

Beginning Fund Balance

Ending Fund Balance

	Detail by Object					
	CAPITAL OUTLAY	OTHER OBJECTS	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
			$ 1,378,360	$ 2,518,000	$ 2,518,000	$ (1,139,640)
			1,378,360	2,518,000	2,518,000	(1,139,640)
	$ 87,656	$ -	769,812	1,093,000	1,093,000	323,188
	-	-	216,163	432,000	432,000	215,837
	-	-	317,749	681,000	681,000	363,251
	-	-	1,400	11,000	11,000	9,600
	-	-	-	3,000	3,000	3,000
	87,656	-	1,305,124	2,220,000	2,220,000	914,876
	-	-	2,751	20,000	20,000	17,249
	-	-	20,722	45,000	45,000	24,278
	-	-	27,112	20,000	20,000	(7,112)
	-	-	-	80,000	80,000	80,000
	-	-	50,585	165,000	165,000	114,415
	-	-	-	78,000	78,000	78,000
	-	34,064	34,064	110,000	110,000	75,936
	$ 87,656	$ 34,064	1,389,773	2,573,000	2,573,000	1,183,227
			(11,413)	(55,000)	(55,000)	43,587
			207,534	55,000	55,000	152,534
			$ 196,121	$ -	$ -	$ 196,121

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, 2016

	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
REVENUES:				
Local Sources:				
Taxes-Current Levy	$ 6,288,744	$ 6,250,000	$ 6,250,000	$ 38,744
Taxes-Prior Levies	135,245	210,000	210,000	(74,755)
Earnings on Investments	30,543	15,000	15,000	15,543
Total Revenues	6,454,532	6,475,000	6,475,000	(20,468)
EXPENDITURES:				
Debt Service:				
Long-Term Debt Service:				
Redemption of Principal	3,585,000	3,585,000	3,585,000	-
Interest	3,089,749	3,090,000	3,090,000	251
Total Expenditures	6,674,749	6,675,000	6,675,000	251
Excess of Revenues Over (Under) Expenditures	(220,217)	(200,000)	(200,000)	(20,217)
Beginning Fund Balance	127,383	250,000	250,000	(122,617)
Ending Fund Balance	$ (92,834)	$ 50,000	$ 50,000	$ (142,834)

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, 2016

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

Total Revenues

	Detail by Object			
	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
EXPENDITURES:				
Instruction	$ -	$ -	$ -	$ 173,131
Support Services	-	-	-	-
Facilities Acquisition and Service Direction	148,264	59,413	325,865	9,522
Debt Service	-	-		-
Operating Contingency	-	-	-	-
Total Expenditures	$ 148,264	$ 59,413	$ 325,865	$ 9,522

Excess of Expenditures Over Revenues

Other Financing Sources and (Uses):
Transfers Out

Excess of Expenditures Over Revenues and Other Financing Sources

Beginning Fund Balance

Ending Fund Balance

Detail by Object					
CAPITAL OUTLAY	OTHER OBJECTS	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
		$ 624,976	$ 450,000	$ 450,000	$ 174,976
		10,874	5,000	5,000	5,874
		5,750	450,000	450,000	(444,250)
		53,959	-	-	53,959
		119,488	425,000	425,000	(305,512)
		815,047	1,330,000	1,330,000	(514,953)
$ -	$ -	173,131	150,000	175,000	1,869
-	-	-	100,000	200,000	200,000
41,641	213	584,918	1,390,000	1,390,000	805,082
-	504,190	504,190	705,000	705,000	200,810
-	-	-	250,000	125,000	125,000
$ 41,641	$ 504,403	1,262,239	2,595,000	2,595,000	1,332,761
		(447,192)	(1,265,000)	(1,265,000)	817,808
		-	(1)	(1)	1
		(447,192)	(1,265,001)	(1,265,001)	817,809
		1,414,791	1,500,001	1,500,001	(85,210)
		$ 967,599	$ 235,000	$ 235,000	$ 732,599

LAKE OSWEGO SCHOOL DISTRICT NO.7J
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	SPECIAL REVENUE FUNDS				
	GRANTS FUND	COMMUNITY SERVICES FUND	STUDENT ACTIVITY FUND	FOOD SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and Investments	$ 250	$ 500	$ 1,012,947	$ 150	$ 1,013,847
Interfund Receivables	-	321,242	-	233,392	554,634
Accounts Receivable	-	331	-	20,366	20,697
Grants Receivable	40,310	-	-	-	40,310
Inventory of Supplies	-	-	-	29,674	29,674
Total Assets	$ 40,560	$ 322,073	$ 1,012,947	$ 283,582	$ 1,659,162
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payables	$ 31,380	$ -	$ -	$ -	$ 31,380
Accounts Payable	1,900	25,941	-	90,651	118,492
Unearned Revenue	7,280	287,225	-	104,230	398,735
Total Liabilities	40,560	313,166	-	194,881	548,607
Fund Balances:					
Nonspendable Inventory	-	-	-	29,674	29,674
Committed to:					
Community Support	-	8,907	-	59,027	67,934
Student Activities	-	-	1,012,947	-	1,012,947
Total Fund Balances	-	8,907	1,012,947	88,701	1,110,555
Total Liabilities and Fund Balances	$ 40,560	$ 322,073	$ 1,012,947	$ 283,582	$ 1,659,162

LAKE OSWEGO SCHOOL DISTRICT NO.7J

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS				
	GRANTS FUND	COMMUNITY SERVICES FUND	STUDENT ACTIVITY FUND	FOOD SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:					
Local Sources:	$ -	$ 2,541,549	$ 2,922,279	$ 1,280,385	$ 6,744,213
Intermediate Sources	104,400	-	-	-	104,400
State Sources	-	-	-	19,297	19,297
Federal Sources	1,459,172	-	-	397,928	1,857,100
Total Revenues	1,563,572	2,541,549	2,922,279	1,697,610	8,725,010
EXPENDITURES:					
Current:					
Instruction	796,904	-	3,237,467	-	4,034,371
Support Services	729,928	-	-	-	729,928
Enterprise and Community Services	-	2,481,945	-	1,591,568	4,073,513
Capital Outlay	-	-	-	5,100	5,100
Debt Service	82,550	50,697	-	42,429	175,676
Total Expenditures	1,609,382	2,532,642	3,237,467	1,639,097	9,018,588
Excess (Deficiency) of Revenues Over Expenditures	(45,810)	8,907	(315,188)	58,513	(293,578)
Other Financing Sources:					
Transfer In	45,810	-	-	514	46,324
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	-	8,907	(315,188)	59,027	(247,254)
Increase (Decrease) in Inventories	-	-	-	(20,585)	(20,585)
Beginning Fund Balance	-	-	1,328,135	50,259	1,378,394
Ending Fund Balance	$ -	$ 8,907	$ 1,012,947	$ 88,701	$ 1,110,555

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, 2016

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	$ 28,298	$ 26,415	$ 99	$ 4,652
Less Restrictive Programs	260,215	156,294	3,660	-
Title I Programs	177,869	127,196	1,733	7,884
Other Programs	2,212	377	-	-
Total Instruction	468,594	310,282	5,492	12,536
Support Services:				
Students:				
Nursing Services	64,594	17,930	-	-
Psychological Services	92,242	45,313	-	-
Service Direction, Student Support	248,477	125,036	4,237	-
Instructional Staff:				
Improvement of Instruction	15,208	1,922	81,274	-
Student Assessment	-	-	-	-
Central Activities:				
Indirect Costs	-	-	-	-
Total Support Services	420,521	190,201	85,511	-
Debt Service - Interest	-	-	-	-
Total Expenditures	$ 889,115	$ 500,483	$ 91,003	$ 12,536

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)
	104,400	46,000	46,000	58,400
	-	180,000	180,000	(180,000)
	1,459,172	1,821,000	1,821,000	(361,828)
	1,563,572	2,051,000	2,051,000	(487,428)

Detail by Object					
CAPITAL OUTLAY	OTHER OBJECTS				
$ -	$ -	59,464	-	-	(59,464)
-	-	420,169	925,000	875,000	454,831
-	-	314,682	325,000	325,000	10,318
-	-	2,589	-	-	(2,589)
-	-	796,904	1,250,000	1,200,000	403,096
-	-	82,524	-	-	(82,524)
-	-	137,555	-	50,000	(87,555)
-	30,654	408,404	411,000	411,000	2,596
-	3,041	101,445	250,000	250,000	148,555
-	-	-	12,500	12,500	12,500
-	-	-	42,500	42,500	42,500
-	33,695	729,928	716,000	766,000	36,072
-	82,550	82,550	85,000	85,000	2,450
$ -	$ 116,245	1,609,382	2,051,000	2,051,000	441,618
		(45,810)	-	-	(45,810)
		45,810	-	-	45,810
		-	-	-	-
		$ -	$ -	$ -	$ -

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, 2016

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources, Community Service Activities:				
Community Services Tuition	$ 1,135,812	$ 1,371,000	$ 1,371,000	$ (235,188)
Extended Child Care Fees	1,082,537	1,260,000	1,260,000	(177,463)
Driver's Ed. Fees	90,624	90,000	90,000	624
Pool Fees	147,558	150,000	150,000	(2,442)
Rent From School Facility	85,018	110,000	110,000	(24,982)
Miscellaneous	-	10,000	10,000	(10,000)
Total Revenues	2,541,549	2,991,000	2,991,000	(449,451)
EXPENDITURES:				
Enterprise and Community Services				
Other Enterprise:				
Community Recreation:				
Salaries	592,073	690,000	690,000	97,927
Employee Benefits	114,077	150,000	150,000	35,923
Purchased Services	262,971	350,000	350,000	87,029
Supplies & Materials	266,176	345,000	345,000	78,824
Capital Outlay	-	5,000	5,000	5,000
Other Objects	7,125	10,000	10,000	2,875
Swim Pool:				
Salaries	85,177	130,000	130,000	44,823
Employee Benefits	30,015	35,000	35,000	4,985
Purchased Services	96,413	160,000	160,000	63,587
Supplies & Materials	18,968	20,000	20,000	1,032
Capital Outlay	-	25,000	25,000	25,000
Other Objects	1,112	1,000	1,000	(112)
Custody and Care of Children:				
Salaries	614,495	640,000	640,000	25,505
Employee Benefits	284,414	385,000	385,000	100,586
Purchased Services	56,536	40,000	40,000	(16,536)
Supplies & Materials	52,393	80,000	80,000	27,607
Capital Outlay	-	5,000	5,000	5,000
Total Enterprise and Community Services	2,481,945	3,071,000	3,071,000	589,055
Debt Service	50,697	70,000	70,000	19,303
Total Expenditures	2,532,642	3,141,000	3,141,000	608,358
Excess (Deficiency) of Revenues Over Expenditures	8,907	(150,000)	(150,000)	158,907
Other Financing Sources:				
Transfers In	-	150,000	150,000	(150,000)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources	8,907	-	-	8,907
Beginning Fund Balance	-	-	-	-
Ending Fund Balance	$ 8,907	$ -	$ -	$ 8,907

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, 2016

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources:				
Community Services Activities	$ 2,922,279	$ 2,850,000	$ 2,850,000	$ 72,279
EXPENDITURES:				
Instruction:				
Regular Programs:				
Elementary-Extra-curricular:				
Supplies & Materials	133,549	225,000	225,000	91,451
Jr. High-Extra-curricular:				
Supplies & Materials	469,855	500,000	500,000	30,145
High School Extra-curricular:				
Supplies & Materials	2,634,063	2,325,000	2,325,000	(309,063)
Total Instruction	3,237,467	3,050,000	3,050,000	(187,467)
Excess (Deficiency) of Revenues Over Expenditures	(315,188)	(200,000)	(200,000)	(115,188)
Beginning Fund Balance	1,328,135	1,750,000	1,750,000	(421,865)
Ending Fund Balance	$ 1,012,947	$ 1,550,000	$ 1,550,000	$ (537,053)

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, 2016

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources - Food Service:				
Food Service Sales	$ 1,236,913	$ 1,210,000	$ 1,210,000	$ 26,913
Banquets & Miscellaneous	43,472	100,000	100,000	(56,528)
Total Local Sources - Food Service	1,280,385	1,310,000	1,310,000	(29,615)
State Sources:				
State School Support - Lunch Match	19,297	20,000	20,000	(703)
Federal Sources:				
National School Lunch Reimbursement	311,236	340,000	340,000	(28,764)
USDA Commodities	86,692	75,000	75,000	11,692
Total Federal Sources	397,928	415,000	415,000	(17,072)
Total Revenues	1,697,610	1,745,000	1,745,000	(47,390)
EXPENDITURES:				
Enterprise and Community Services:				
Food Services:				
Salaries	494,905	530,000	530,000	35,095
Employee Benefits	242,351	240,000	240,000	(2,351)
Purchased Services	27,011	35,000	35,000	7,989
Supplies & Materials	822,131	885,000	885,000	62,869
Capital Outlay	5,100	10,000	10,000	4,900
Other Objects	5,170	5,000	5,000	(170)
Total Enterprise and Community Services	1,596,668	1,705,000	1,705,000	108,332
Debt Service - Other Objects	42,429	110,000	110,000	67,571
Total Expenditures	1,639,097	1,815,000	1,815,000	175,903
Excess (Deficiency) of Revenues Over Expenditures	58,513	(70,000)	(70,000)	128,513
Other Financing Sources:				
Transfer In	514	75,000	75,000	(74,486)
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures	59,027	5,000	5,000	54,027
Beginning Fund Balance	-	65,000	65,000	(65,000)
Ending Fund Balance	$ 59,027	$ 70,000	$ 70,000	$ (10,973)

OTHER FINANCIAL SCHEDULES

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:

	$ 3,268

Exclude these functions:		Exclude these functions:	
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

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, 2016, 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 31, 2016.

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.

Grove Mueller & Swank, PC

CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2016

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, 2016. 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, 2016.

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.

Groce Mueller & Rush PC

CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2016

LAKE OSWEGO SCHOOL DISTRICT NO.7J

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Source/Grant Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures (Budgetary Basis)
U.S. DEPARTMENT OF EDUCATION:			
Passed Through Oregon Department of Education:			
Title IA	84.010	32617	$ 26,344
Title IA	84.010	36008	304,645
Subtotal Title I Grants to Local Education Agencies			330,989
Special Education - Grants to States	84.027	33306	116,163
Special Education - Grants to States	84.027	36893	899,467
Special Education - Grants to States	84.027	38358	7,057
Special Education - Grants to States	84.027	37912	4,051
Subtotal Special Education Cluster (IDEA)			1,026,738
Title IIA Improving Teacher Quality	84.367	36205	101,445
TOTAL U.S. DEPARTMENT OF EDUCATION			1,459,172
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through Oregon Department of Education:			
National School Lunch Program - Breakfast	10.553	N/A	30,072
National School Lunch Program - Lunch	10.555	N/A	281,164
National School Lunch Program - Commodities	10.555	N/A	86,692
Subtotal Child Nutrition Cluster			397,928
Passed Through Clackamas County			
Schools and Roads - Grants to States	10.665	N/A	38,716
Subtotal Forest Service Schools and Roads Cluster			38,716
TOTAL U.S. DEPARTMENT OF AGRICULTURE			436,644
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,895,816

See notes to schedule of expenditures of federal awards.

PURPOSE OF THE SCHEDULE

The accompanying schedule of expenditures of federal awards (the "Schedule") is a supplementary schedule to the Lake Oswego School District No.7J's financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the District, it is not intended to and does not present either the financial position, changes in fund balances, or the operating funds' revenues, expenditures and changes of the District.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in the Schedule is presented in accordance with the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

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, nonmonetary 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 establish criteria to be used in defining major federal financial assistance programs. Major programs for the Lake Oswego School District No.7J are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in the 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. Additionally, the Schedule includes all federal programs administered by the District for the year ended June 30, 2016.

Revenue and Expenditure Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded as received in cash or on the accrual basis where measurable and available. Expenditures are recorded when the liability is incurred.

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 programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster

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.

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, 2016, and have issued our report thereon dated December 31, 2016.

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 for expenditures in excess of appropriations and the deficit fund balance 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

Larry E. Grant, A Shareholder
December 31, 2016

STATISTICAL SECTION

LAKE OSWEGO SCHOOL DISTRICT NO.7J

BALANCE SHEETS - GENERAL FUND

LAST FIVE FISCAL YEARS

	As of June 30,				
	2012	2013	2014	2015	2016
ASSETS:					
Cash	$ 17,665,560	$ 12,287,821	$ 12,192,925	$ 13,858,303	$ 17,906,664
Receivables:					
Taxes	2,259,452	2,260,279	2,140,226	2,164,181	2,443,337
Accounts	479,937	566,959	505,966	442,622	505,060
Prepaids	31,174	51,070	42,820	35,097	86,573
Inventory of Supplies	77,059	89,920	73,192	68,990	60,822
Total Assets	$ 20,513,182	$ 15,256,049	$ 14,955,129	$ 16,569,193	$ 21,002,456
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Interfund Payables	$ 805,063	$ 1,173,890	$ 63,844	$ 673,671	$ 577,058
Intergovernmental Payable	134,947	151,976	196,297	246,678	289,546
Accrued Payroll and Benefits Payable	6,093,376	6,457,045	6,593,033	5,927,437	6,599,369
Accounts Payable	1,932,547	695,402	618,409	697,909	493,884
Unearned Revenue	53,059	38,352	73,636	10,510	9,680
Total Liabilities	9,018,992	8,516,665	7,545,219	7,556,205	7,969,537
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue-Taxes	2,084,164	1,921,882	1,730,319	1,855,449	2,205,975
FUND BALANCES:					
Nonspendable Prepaids	31,174	51,070	42,820	35,097	86,573
Nonspendable Inventory	77,059	89,920	73,192	68,990	60,822
Unassigned	9,301,793	4,676,512	5,563,579	7,053,452	10,679,549
Total Fund Balances	9,410,026	4,817,502	5,679,591	7,157,539	10,826,944
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 20,513,182	$ 15,256,049	$ 14,955,129	$ 16,569,193	$ 21,002,456

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,				
	2012	2013	2014	2015	2016
REVENUES:					
Local Sources:					
Taxes	$ 33,371,731	$ 33,527,166	$ 34,483,139	$ 37,231,275	$ 39,756,068
Earnings on Investments	103,513	120,720	107,947	95,902	127,659
City of Lake Oswego Support	2,000,000	-	-	-	-
Other Local Sources	2,459,584	2,799,376	1,858,774	1,852,714	1,562,665
Intermediate Sources	348,881	367,765	342,860	525,574	1,044,943
State Sources	19,165,725	18,176,583	22,889,505	24,461,183	26,932,511
Federal Sources	1,490,620	35,202	34,390	34,241	38,716
Total Revenues	58,940,054	55,026,812	59,716,615	64,200,889	69,462,562
EXPENDITURES:					
Current:					
Instruction	31,892,417	34,089,602	35,910,750	38,361,592	40,775,418
Support Services	19,236,503	19,908,798	19,786,751	20,678,010	21,506,766
Capital Outlay	2,017,739	2,757,903	76,010	287,781	24,518
Debt Service:					
Principal	2,503,190	957,677	989,042	3,118,752	1,040,234
Interest	1,951,636	1,920,713	2,055,373	2,225,581	2,391,729
Total Expenditures	57,601,485	59,634,693	58,817,926	64,671,716	65,738,665
Excess (Deficiency) of Revenues Over Expenditures	1,338,569	(4,607,881)	898,689	(470,827)	3,723,897
OTHER FINANCING SOURCES (USES):					
Proceeds From Refunding of Long-Term Debt	1,660,000	-	-	2,137,209	-
Compensation for Loss of Capital Assets	-	25,100	7,875	2,375	-
Transfers Out	(152,012)	(22,604)	(27,747)	(186,607)	(46,324)
Total Other Financing Sources (Uses)	1,507,988	2,496	(19,872)	1,952,977	(46,324)
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	2,846,557	(4,605,385)	878,817	1,482,150	3,677,573
Increase (Decrease) in Inventories	(65,070)	12,861	(16,728)	(4,202)	(8,168)
FUND BALANCE, Beginning of Year	6,628,539	9,410,026	4,817,502	5,679,591	7,157,539
FUND BALANCE, End of Year	$ 9,410,026	$ 4,817,502	$ 5,679,591	$ 7,157,539	$ 10,826,944