SARATOGA CEMETERY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
June 30, 2016
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CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Saratoga Cemetery District

Table of Contents
June 30, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Saratoga Cemetery District
Saratoga, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Saratoga Cemetery District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Saratoga Cemetery District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of a Matter

New Accounting Pronouncements

As discussed in Note 2 to the financial statements, the District adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Loca*l Governments, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 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.

C & A LLP

October 15, 2016
San Jose, California

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BASIC FINANCIAL STATEMENTS

Saratoga Cemetery District

Statement of Net Position

June 30, 2016

		Governmental Activities
ASSETS		
Current assets:		
Cash and cash equivalents	$	5,192,107
Inventory		16,031
Total current assets		5,208,138
Noncurrent assets:		
Investments		4,369,968
Capital assets, net of depreciation		2,998,264
Total noncurrent assets		7,368,232
Total Assets	$	12,576,370
LIABILITIES		
Current liabilities:		
Accounts payable	$	16,477
Payroll and other liabilities		7,343
Total current liabilities		23,820
Noncurrent liabilities:		
Compensated absences		7,471
Total Liabilities	$	31,291
NET POSITION		
Net investment in capital assets	$	2,998,264
Restricted for permanent endowment fund		2,711,239
Unrestricted		6,835,576
Total Net Position	$	12,545,079

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Statement of Activities

For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position
Governmental activities:			
Interment services	$ 538,711	$ 540,339	$ 1,628
Depreciation	61,850	-	(61,850)
Total governmental activities	$ 600,561	$ 540,339	(60,222)
General revenues:			
Property taxes			879,623
Investment earnings			176,384
Endowment care			58,100
Other revenues			11,640
Total general revenues and special items			1,125,747
Change in net position			1,065,525
Net position beginning			11,479,554
Net position ending			$ 12,545,079

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Capital Projects Fund	Permanent Endowment Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,244,040	$ 3,891,479	$ 56,588	$ 5,192,107
Investments	-	1,715,317	2,654,651	4,369,968
Inventory	16,031	-	-	16,031
Total Assets	$ 1,260,071	$ 5,606,796	$ 2,711,239	$ 9,578,106
LIABILITIES				
Accounts payable	$ 16,477	$ -	$ -	$ 16,477
Payroll and other liabilities	7,343	-	-	7,343
Total Liabilities	23,820	-	-	23,820
FUND BALANCE				
Nonspendable	-	-	896,501	896,501
Restricted	-	-	1,814,738	1,814,738
Assigned for capital projects	-	5,606,796	-	5,606,796
Unassigned	1,236,251	-	-	1,236,251
Total Fund Balance	1,236,251	5,606,796	2,711,239	9,554,286
Total Liabilities and Fund Balance	$ 1,260,071	$ 5,606,796	$ 2,711,239	$ 9,578,106

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Position

June 30, 2016

Total fund balance - governmental funds			$ 9,554,286
Amounts reported in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Capital assets at cost	$	4,506,497	
Accumulated depreciation		(1,508,233)	2,998,264
Compensated absences are not due and payable in the current period and therefore are not reported as liabilities in the funds.			(7,471)
Total net position - governmental activities			$ 12,545,079

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Fiscal Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Permanent Endowment Fund	Total Governmental Funds
Revenues:				
Property taxes	$ 879,623	$ -	$ -	$ 879,623
Charges for services	131,800	408,539	-	540,339
Investment earnings	4,644	72,949	98,791	176,384
Endowment care	-	-	58,100	58,100
Other revenues	11,640	-	-	11,640
Total revenues	1,027,707	481,488	156,891	1,666,086
Expenditures:				
Salaries and employee benefits	245,680	-	-	245,680
Services and supplies	280,962	7,109	-	288,071
Capital outlay	-	1,108	-	1,108
Total expenditures	526,642	8,217	-	534,859
Excess (deficiency) of revenues over (under) expenditures	501,065	473,271	156,891	1,131,227
Other financing sources (uses):				
Transfers in	-	10,431	16,046	26,477
Transfers out	(26,477)	-	-	(26,477)
Total other financing sources (uses)	(26,477)	10,431	16,046	-
Net changes in fund balance	474,588	483,702	172,937	1,131,227
Fund balance beginning	761,663	5,123,094	2,538,302	8,423,059
Fund balance ending	$ 1,236,251	$ 5,606,796	$ 2,711,239	$ 9,554,286

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Reconciliation of the Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

to the Statement of Activities

For the Fiscal Year Ended June 30, 2016

Total net change in fund balance - governmental funds		$ 1,131,227
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	$ -	
Depreciation expense	(61,850)	(61,850)
In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation amount paid exceeded the amounts earned.		(3,852)
Change in net position of governmental activities		$ 1,065,525

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Statement of Fiduciary Net Position

Pre-Need Fund

June 30, 2016

		Total Pre-Need Fund
ASSETS		
Cash and cash equivalents	$	84,404
Investments		565,732
Total Assets	$	650,136
NET POSITION		
Held in trust	$	650,136
Total Net Position	$	650,136

The notes to the financial statements are an integral part of this statement.

Saratoga Cemetery District

Statement of Changes in Fiduciary Net Position

Pre-Need Fund

June 30, 2016

		Total Pre-Need Fund
Additions:		
Pre-need sales	$	71,786
Investment earnings, net of unrealized gains (losses)		21,636
Total Additions		93,422
Deletions:		
Pre-need uses		12,778
Change in net position		80,644
Net position - beginning		569,492
Net position - ending	$	650,136

The notes to the financial statements are an integral part of this statement.

NOTE 1 - NATURE OF ORGANIZATION

The Saratoga Cemetery District (the “District”) was organized in August 1927 and operates in conformity with the provisions of Part 4 of Division 8 of the Health and Safety Code, commencing at Section 8890. The District currently maintains the Madronia Cemetery located at 14766 Oak Street in Saratoga, California. The District provides lower cost cemetery plots and burials for the residents and taxpayers, including their qualified relatives, located within the boundaries of the District. The current boundaries of the District include the cities of Saratoga and Monte Sereno, and portions of the County of Santa Clara that fall within the Saratoga Union Elementary School District. The District is governed by a five member Board of Trustees appointed by the County of Santa Clara’s Board of Supervisors for a term of four years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The reporting entity is comprised of the primary government. The primary government of the District consists of all funds that are not legally separate from the District. This includes the general operations and endowment activities of the District.

The District’s combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit’s reporting entity for general purpose financial reports is the ability of the governmental unit’s officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the governmental unit’s power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2016, the District does not have any component units and is not a component unit of any other reporting entity.

B. Basis of Presentation

The District's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the District. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

Deferred outflows of resources are consumptions of net assets by the government that are applicable to a future reporting period. For example, prepaid items and deferred charges would be classified as deferred outflows of resources.

Deferred inflows of resources are acquisitions of net assets by the government that are applicable to a future reporting period. For example, unearned revenue and advance collections would be classified as deferred inflows of resources.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows of resources from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows of resources from unearned revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for proceeds from the sale or acquisition of real property and major capital facilities.

The *Permanent Endowment Fund* is used to account for resources that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's operations.

Fiduciary Funds:

Private-Purpose Trust Funds are used to account for assets held by the District as trustee. The District maintains one trust fund: the Pre-Need Burial Fund. Earnings in the Pre-Need Burial fund are transferred to the General Fund for the specific purpose of financing burial expenditures.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and general manager during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Accounting Estimates

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

G. Assets, Liabilities, and Net Position

1. Cash and Investments

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer Interest earned on investments is recorded as revenue of the fund from which the investment was made.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The District participates in an investment pool managed by the State of California and regulated by California government code Section 16429 known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

2. Cash and Cash Equivalents

Cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

3. Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

4. Capital Assets

Capital assets, which include land, buildings and improvements, furniture, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of $2,500.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	10 - 20
Site Improvements	5 - 15
Equipment	5 - 20

5. Compensated Absences

All vacation and sick pay plus related payroll tax is accrued when incurred 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.

6. Fund Balance Reserves and Designations

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Nonspendable* fund balance includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

- *Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- *Committed* fund balances includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of trustees.

- *Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the General Manager.

- *Unassigned* fund balance includes positive amounts within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

7. Statement of Net Position

The Statement of Net Position is designed to display the financial position of the District. The District's net position is classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.

- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

8. Property Taxes

The District receives property tax revenue from Santa Clara County (the County). The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The counties apportion secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year. Taxes are levied annually on July 1st, and one-half are due by November 1st and one-half by February 1st. Taxes are delinquent after December 10th and April 10th, respectively. Supplemental property taxes are levied on a pro-rata basis when changes in assessed valuation occur due to the completion of construction or sales transactions. Liens on real property are established on January 15th for the ensuing fiscal year.

On March 31, 1993, the Board of Supervisors adopted the "Teeter" method of property tax allocation. This method allocates property taxes based on the total property tax billed. At year-end, the County advances cash to each taxing jurisdiction equal to its current year delinquent taxes. Once the delinquent taxes are collected, the revenue from penalties and interest remains with the County and is used to pay the interest cost of borrowing the cash used for the advances.

9. Risk Management

The District is exposed to various risks including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. The District participates in a risk pool under a JPA for general liability, automobile, property and workers' compensation coverage.

H. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

I. New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (*a*) a government holds primarily for the purpose of income or profit and (*b*) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date.

The statement requires that acquisition value (an entry price) be used to measure the following assets:

a. donated capital assets;
b. donated works of art, historical treasures, and other similar assets; and
c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The purpose of GASB Statement No. 76 (GASB 76) is to identify the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B).

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

The implementation of GASB 76 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB 79 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. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments

J. Upcoming Accounting and Reporting Changes

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Management anticipates that this statement will not have a direct impact on the District's financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer District provides financial support for OPEB of employees of another District.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*

GASB Statement No. 77, *Tax Abatement Disclosures,* addresses financial reporting about the nature and magnitude of tax abatements of governmental entities. The statement requires that governments that enter into tax abatements disclose more comprehensive information about the agreements, including the following:

a. Brief descriptive information including what tax is being abated, the authority under which the abatement is provided, and the eligibility criteria
b. The gross dollar amount of taxes abated during the period
c. Other commitments made by a government as part of the agreement

The complete disclosure requirements are provided in paragraphs 7 and 8 of GASB 77. GASB 77 is effective for periods beginning after December 15, 2015. The District does not anticipate a material impact on its financial statements from the implementation of this standard.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The District does not anticipate a material impact on its financial statements from the implementation of this standard.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's cash, cash equivalents and investments consisted of the following as of June 30, 2016:

Cash, Cash Equivalents and Investments	Available for Operations	Restricted	Fair Value June 30, 2016
Cash and Cash Equivalents:			
Cash on hand and in banks	$ 580,600	$ 62,655	$ 643,255
Cash in the Santa Clara County Treasury	3,627,807	78,337	3,706,144
California Local Agency Investment Fund	927,112	-	927,112
Total Cash and Cash Equivalents	5,135,519	140,992	5,276,511
Investments:			
Cash with fiscal agents/brokers	1,715,317	3,220,383	4,935,700
Total Investments	1,715,317	3,220,383	4,935,700
Total Cash, Cash Equivalents and Investments	$ 6,850,836	$ 3,361,375	$ 10,212,211

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted.

	Governmental Funds	Fiduciary Funds	Totals
Cash and investments available for operations	5,192,107	84,404	$ 5,276,511
Restricted cash and investments	4,369,968	565,732	4,935,700
Total cash and investments	$ 9,562,075	$ 650,136	$ 10,212,211

Cash in Banks

Cash balances in banks are insured up to $250,000 per insured bank by the Federal Deposit Insurance Corporation ("FDIC"). The District's accounts are held with various banks. As of June 30, 2016, the District's bank balances exceeded FDIC coverage by $416,084.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal. The

District has the following recurring fair value measurements as of June 30, 2016:

- Cash in county of $3,706,144 was valued using Level 2 inputs.
- Cash with fiscal agents and brokers of $4,935,700 was valued using Level 2 inputs.

Cash in the Santa Clara County Treasury

Santa Clara County is a fiscal agent of the District. The fair value of the District's investment in the county pool is reported at amounts based on the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized costs basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average maturity date of less than one year.

All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds of the County.

California Local Agency Investment Fund

The District is a participant in the Local Agency investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, States Treasury Notes and Bills, and corporations. At June 30, 2016, these investments had an average maturity date of less than one year.

Investment Policy

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded.

The table below also identifies certain provisions of the California Government Code or the District's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Required Rating
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Banker's Acceptances	180 days	40%	None
Commercial Paper - Select Agencies	270 Days	25%	A1/A
Commercial Paper - Other Agencies	270 Days	25%	A1/A
Negotiable Certificates of Deposit	5 years	30%	None
CD Placement Service	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium Term Corporate Notes	5 years	30%	A
Money Market Mutual Funds & Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage pass-Through Securities	5 years	20%	AA
Bank/Time Deposits	5 years	None	None
County pooled Investment Funds	N/A	None	None
Joint Powers Authority	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

a) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Santa Clara County investment pool and LAIF, which had fair values of approximately $5.6 billion and $75.4 billion, respectively as of June 30, 2016.

b) Credit Risk

Credit Risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of investments table above shows the minimum rating under the actual rating of the District's investments at year end.

The investment with the County's investment pool is governed by the County's general investment policy. The County's investments in 2015-16 included U.S. government securities or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure. The District's investment in LAIF is not rated. The District's cash with fiscal agent and brokers includes investments rated from BAA1 to AA+.

c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

d) Concentration of Credit Risk

The District's cash and investments did not exceed the limitations noted in the above chart on the amount that can be invested in any one issuer.

NOTE 4 - CAPITAL ASSETS

The District's capital assets consisted of the following as of June 30, 2016:

Description	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Non-depreciable capital assets:				
Land and land improvements	$ 1,690,158	$ -	$ -	$ 1,690,158
Total non-depreciable capital assets	1,690,158	-	-	1,690,158
Depreciable capital assets:				
Land Improvements	1,664,226	-	-	1,664,226
Buildings & Improvements	1,018,224	-	-	1,018,224
Furniture & Equipment	133,889	-	-	133,889
Total depreciable capital assets	2,816,339	-	-	2,816,339
Less accumulated depreciation for:				
Land Improvements	525,086	41,452	-	566,538
Buildings & Improvements	787,408	20,098	-	807,506
Furniture & Equipment	133,889	300	-	134,189
Total accumulated depreciation	1,446,383	61,850	-	1,508,233
Total depreciable capital assets - net	1,369,956	(61,850)	-	1,308,106
Total capital assets - net	$ 3,060,114	$ (61,850)	$ -	$ 2,998,264

Depreciation expense for the year ended June 30, 2016, net of adjustments was $61,850.

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

The District transferred $10,431 from the General Fund to the Capital Projects Fund and $16,046 from the General Fund to the Permanent Endowment Fund.

NOTE 6 - JOINT POWERS AGREEMENTS

The District is a member of the Special District Risk Management Association (SDRMA) a joint powers authority. The District pays an annual premium to the authority for its workers' compensation, general liability, automobile liability, and property coverages. The relationship between the District and SDRMA is such that it is not a component unit of the District for financial reporting purposes.

This entity has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between SDRMA and the District are included in these statements.

The following is a summary of the most recent financial statement information provided by SDRMA:

	SDRMA June 30, 2015
Total Assets & Deferred Outflows	$ 108,604,290
Total Liabilities & Deferred Inflows	59,914,164
Total Equity	48,690,126
Total Revenues	57,016,861
Total Expenditures	60,652,085

During the year ended June 30, 2016, the District made payments of approximately $13,588 to SDRMA for its coverage.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

The District may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on the District’s financial position or results of operations as of June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Saratoga Cemetery District

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
Property taxes	$ -	$ -	$ 879,623	$ 879,623
Charges for services	-	-	131,800	131,800
Investment earnings	-	-	4,644	4,644
Other revenues	-	-	11,640	11,640
Total revenues	-	-	1,027,707	1,027,707
Expenditures:				
Salaries and employee benefits	257,866	257,866	245,680	12,186
Services and supplies	333,616	333,616	280,962	52,654
Total expenditures	591,482	591,482	526,642	64,840
Excess (deficiency) of revenues over (under) expenditures	(591,482)	(591,482)	501,065	1,092,547
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(26,477)	(26,477)
Total other financing sources (uses)	-	-	(26,477)	(26,477)
Net change in fund balance	(591,482)	(591,482)	474,588	1,066,070
Fund balance beginning	761,663	761,663	761,663	-
Fund balance ending	$ 170,181	$ 170,181	$ 1,236,251	$ 1,066,070

OTHER INDEPENDENT AUDITOR’S REPORTS

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

To the Board of Directors
Saratoga Cemetery District
Saratoga, California

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 the governmental activities, each major fund, and the aggregate remaining fund information of the Saratoga Cemetery District (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 October 15, 2016.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective 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 entity'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 of 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

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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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

October 15, 2016
San Jose, California

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