

**LOS GATOS UNION SCHOOL DISTRICT
COUNTY OF SANTA CLARA
LOS GATOS, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2016

LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Net Position - Fiduciary Funds	21
Notes to the Basic Financial Statements	22
<u>REQUIRED SUPPLEMENTARY INFORMATION SECTION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	53
Schedule of Funding Progress	54
Schedule of the Proportionate Share of the Net Pension Liability - CalSTRS	55
Schedule of the Proportionate Share of the Net Pension Liability - CalPERS	56
Schedule of Contributions - CalSTRS	57
Schedule of Contributions - CalPERS	58
Notes to Required Supplementary Information	59

LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2016

TABLE OF CONTENTS (CONCLUDED)

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Combining Statements - Non-Major Funds:	
Combining Balance Sheet - Non-Major Governmental Funds	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	62
Organization/Board of Trustees/Administration	63
Schedule of Average Daily Attendance	64
Schedule of Instructional Time	65
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	66
Schedule of Financial Trends and Analysis	67
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Measure B Parcel Tax	68
Notes to Supplementary Information	69
<u>OTHER INDEPENDENT AUDITOR'S REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	71
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 <i>Government Auditing Standards</i>	75
<u>FINDINGS AND QUESTIONED COSTS SECTION</u>	
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	77
Section II - Financial Statement Findings	78
Section III - State Award Findings and Questioned Costs	79
Status of Prior Year Recommendations	80

FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Los Gatos Union School District
Los Gatos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Gatos Union School 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Gatos Union School District, 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 the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on page 53, schedule of funding progress on page 54, schedules of the proportionate share of the net pension liability on pages 55 and 56, and schedules of contributions on pages 57 and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Los Gatos Union School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016 on our consideration of the Los Gatos Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Los Gatos Union School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2016

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Los Gatos Union School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 15 and 16, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 17 through 20, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as an agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- Fiscal year 2015-16 represents the third year of implementation of the new Local Control Funding Formula (LCFF). However, due to the current level of allocated property tax revenues, the District continues to be funded under the Basic Aid Provision.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$6,959,435.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenditures and other financing uses exceeded total current year revenues and other financing sources by \$4,176,233.
- Capital assets, net of depreciation, increased \$7,187,135 due to the current year addition of \$11,001,542 of new capital assets and improvements, and the current year recognition of \$3,814,407 of depreciation expense.
- Total long-term liabilities increased \$13,960 due primarily to the net effect of a \$4,385,000 decrease in general obligation bonds, and a \$4,577,411 increase in net pension liabilities.
- The District's P-2 average daily attendance (ADA) increased from 3,216 ADA in fiscal year 2014-15, up to 3,235 ADA in fiscal year 2015-16, an increase of 19 ADA, less than 1%.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2015-16, General Fund expenditures and other financing uses totaled \$33,960,530. At June 30, 2016, the District had available reserves of \$8,803,597 in the General Fund, which represents a reserve of 25.9%.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and management's discussion and analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements, when applicable.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary fund statement.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

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

The District's financial health (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

Governmental Activities:

The basic services provided by the District, such as regular education, special education, and administration are included here, and are primarily financed by property taxes. Non-basic services, such as child nutrition are also included here, but are financed by a combination of local revenues and state and federal programs.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of Los Gatos Union School District are the General Fund, Bond Interest and Redemption Fund, Capital Facilities Fund, and Capital Projects - Special Reserve Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the Governmental Funds. The District currently has no funds of this type.

Fiduciary Funds:

The District is the fiduciary for its student activity funds. All of the District's fiduciary activities are reported in a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net position increased from \$2,256,834 at June 30, 2015, up to \$9,216,269 at June 30, 2016.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2015	2016
<u>Assets</u>		
Deposits and Investments	\$ 28,287,599	\$ 24,453,547
Receivables	1,202,698	1,010,844
OPEB Asset	471,544	351,085
Prepaid Expenses	24,467	16,918
Capital Assets, net	104,931,510	112,118,645
Total Assets	134,917,818	137,951,039
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	2,827,485	2,746,454
Deferred Amount on Refunding	2,536,532	2,911,916
Total Deferred Outflows of Resources	5,364,017	5,658,370
<u>Liabilities</u>		
Current	8,912,107	9,149,839
Long-term	122,541,782	122,334,066
Total Liabilities	131,453,889	131,483,905
<u>Deferred Inflows of Resources</u>		
Pension Deferrals	6,571,112	2,909,235
<u>Net Position</u>		
Net Investment in Capital Assets	4,891,895	17,005,534
Restricted	8,728,038	7,933,044
Unrestricted (Deficit)	(11,363,099)	(15,722,309)
Total Net Position	\$ 2,256,834	\$ 9,216,269

Table includes financial data of the combined governmental funds.

The unrestricted deficit balance is due primarily to the requirement for the District to record a liability in the financial statements to reflect the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$6,959,435.

<u>Comparative Statement of Changes in Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2016</u>
<u>Program Revenues</u>		
Charges for Services	\$ 470,841	\$ 472,975
Operating Grants & Contributions	4,821,284	4,505,391
Capital Grants & Contributions	0	3,908,780
<u>General Revenues</u>		
Taxes Levied	34,877,013	36,976,898
Federal & State Aid	1,382,223	3,075,681
Interest & Investment Earnings	107,332	115,595
Transfers from Other Agencies	54,156	76,108
Miscellaneous	504,162	612,268
Total Revenues	<u>42,217,011</u>	<u>49,743,696</u>
<u>Expenses</u>		
Instruction	23,897,812	26,812,383
Instruction-Related Services	3,113,522	3,091,599
Pupil Services	2,232,184	2,429,669
General Administration	2,756,338	3,033,704
Plant Services	3,819,275	3,783,140
Interest on Long-Term Debt	3,745,027	3,235,550
Other Outgo	265,443	398,216
Total Expenses	<u>39,829,601</u>	<u>42,784,261</u>
Changes in Net Position	2,387,410	6,959,435
Net Position, Beginning	<u>(130,576)</u>	<u>2,256,834</u>
Net Position, Ending	<u>\$ 2,256,834</u>	<u>\$ 9,216,269</u>

Table includes financial data of the combined governmental funds.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

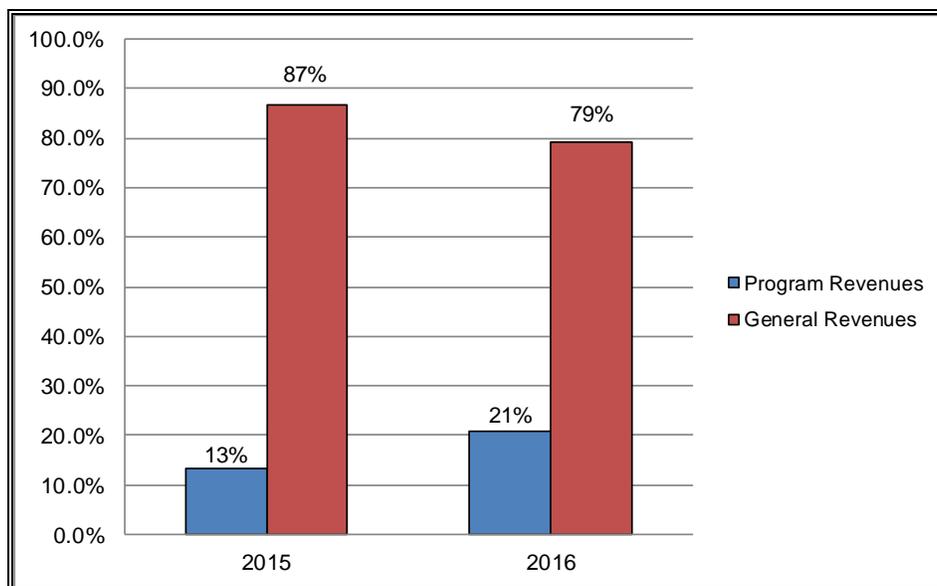
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Total Cost of Services</u>		<u>Net Cost (Revenue) of Services</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Instruction	\$ 23,897,812	\$ 26,812,383	\$ 21,404,566	\$ 20,421,625
Instruction-Related Services	3,113,522	3,091,599	2,982,686	3,012,985
General Administration	2,756,338	3,033,704	2,731,393	3,001,620
Plant Services	3,819,275	3,783,140	3,809,391	3,782,528
Interest on Long-Term Debt	3,745,027	3,235,550	3,745,027	3,235,550
Other Expenses	2,497,627	2,827,885	(135,587)	442,807
Totals	\$ 39,829,601	\$ 42,784,261	\$ 34,537,476	\$ 33,897,115

Table includes financial data of the combined governmental funds.

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$33,897,115 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



During fiscal year 2015-16, program revenues financed 21% of the total cost of providing the services listed above, while the remaining 79% was financed by the general revenues of the District.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

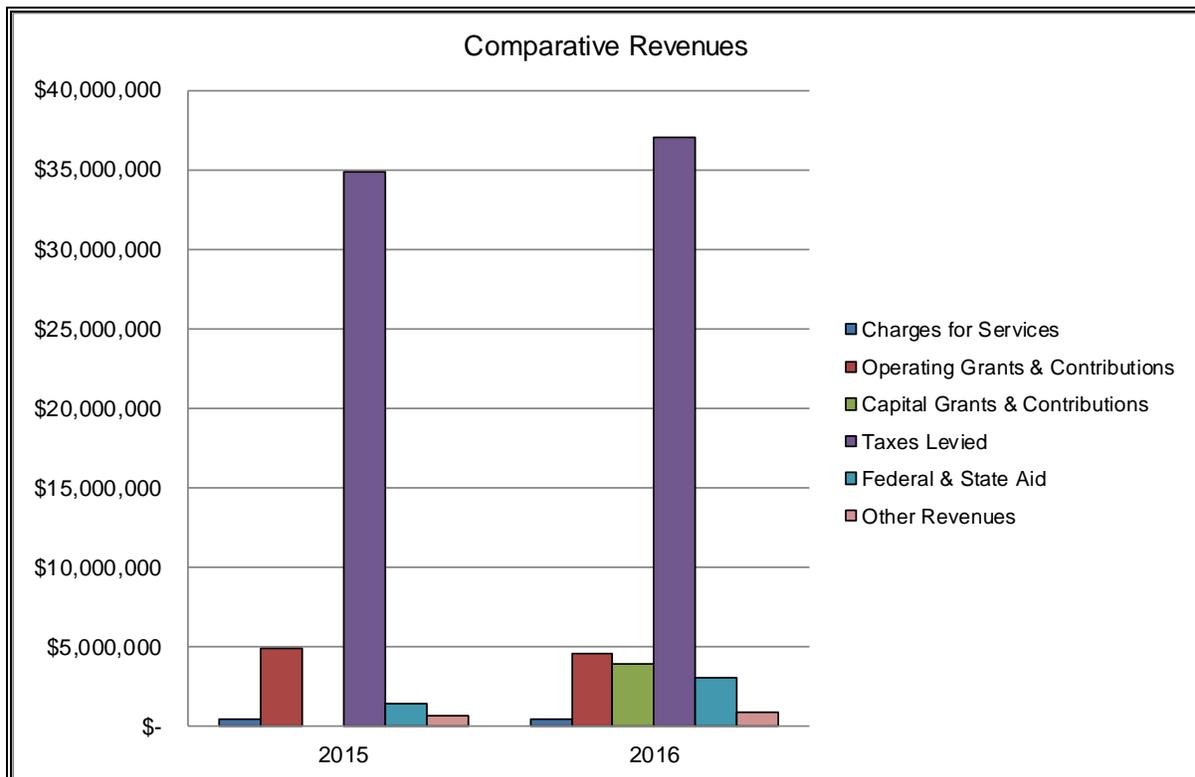
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 470,841	1.12%	\$ 472,975	0.95%
Operating Grants & Contributions	4,821,284	11.42%	4,505,391	9.06%
Capital Grants & Contributions	0	0.00%	3,908,780	7.86%
<u>General Revenues</u>				
Taxes Levied	34,877,013	82.61%	36,976,898	74.33%
Federal & State Aid	1,382,223	3.27%	3,075,681	6.18%
Other Revenues	665,650	1.58%	803,971	1.62%
Total Revenues	<u>\$ 42,217,011</u>	<u>100.00%</u>	<u>\$ 49,743,696</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds.



**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

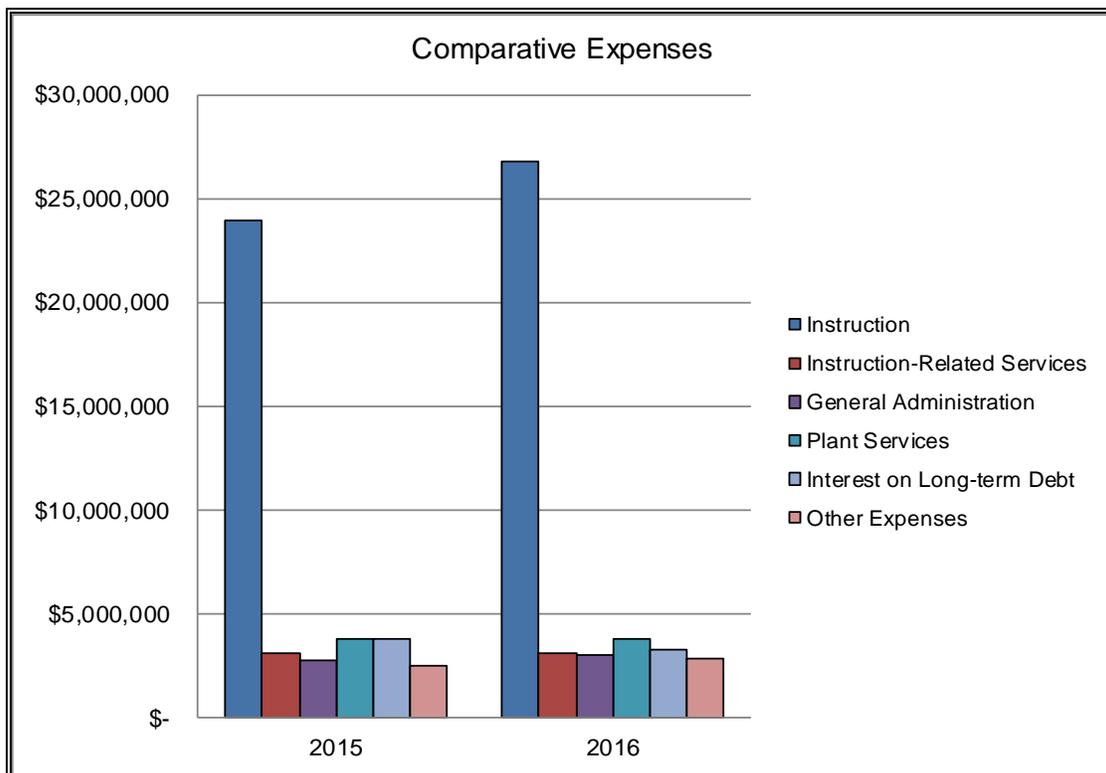
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>	<u>FYE 2016 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 23,897,812	60.00%	\$ 26,812,383	62.67%
Instruction-Related Services	3,113,522	7.82%	3,091,599	7.23%
General Administration	2,756,338	6.92%	3,033,704	7.09%
Plant Services	3,819,275	9.59%	3,783,140	8.84%
Interest on Long-Term Debt	3,745,027	9.40%	3,235,550	7.56%
Other Expenses	2,497,627	6.27%	2,827,885	6.61%
Total Expenses	\$ 39,829,601	100.00%	\$ 42,784,261	100.00%

Table includes financial data of the combined governmental funds.



**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2015	2015
Land	\$ 241,224	\$ 241,224
Sites and Improvements	1,053,965	1,053,965
Buildings and Improvements	141,101,595	155,225,175
Furniture and Equipment	544,878	554,100
Work-in-Progress	3,323,940	192,680
Subtotals	146,265,602	157,267,144
Less: Accumulated Depreciation	(41,334,092)	(45,148,499)
Capital Assets, net	<u>\$ 104,931,510</u>	<u>\$ 112,118,645</u>

Capital assets, net of depreciation, increased \$7,187,135 due to the current year addition of \$11,001,542 of new capital assets and improvements, and the current year recognition of \$3,814,407 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2015	2016
Compensated Absences	\$ 109,095	\$ 96,764
General Obligation Bonds	98,870,000	94,485,000
Bond Premium	3,654,595	3,540,027
Capital Lease	51,552	0
Net Pension Liability - CalSTRS	21,600,157	24,883,701
Net Pension Liability - CalPERS	3,644,414	4,938,281
Totals	<u>\$ 127,929,813</u>	<u>\$ 127,943,773</u>

Total long-term liabilities increased \$13,960 due primarily to the net effect of a \$4,385,000 decrease in general obligation bonds, and a \$4,577,411 increase in net pension liabilities.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The general obligation bonds are financed by the local taxpayers and represent more than 73% of the District's total long-term liabilities. The District has satisfied all of its debt service requirements for its bonded debt and continues to maintain an excellent credit rating on all of its debt issues.

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

The fund balance of the General Fund increased \$2,306,152, while the combined fund balances of the other funds decreased \$6,482,385, due primarily to the construction related expenditures in the Capital Facilities Fund and Capital Projects - Special Reserve Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

On November 4, 2014, the voters of the State of California elected to approve Proposition 2 (State Budget: Budget Stabilization Account. Legislative Constitutional Amendment). The measure will alter the existing requirements for the Budget Stabilization Account (BSA) that was originally established with Proposition 58, passed in 2004. Proposition 2 is set to create a distinct budget stabilization fund known as the "Proposition 98 Reserve" or Public School System Stabilization Account (PSSSA). Proposition 2 also includes a provision that will limit the amount that many school districts may hold in reserves in future years. At this time, the fiscal impact of Proposition 2 is not immediately clear, since the ultimate impact will largely depend on how it is implemented at the state and local levels moving forward.

Fiscal year 2016-17 will be the fourth year of the eight year phase-in period for the Local Control Funding Formula (LCFF). However, due to the current level of allocated property tax revenues, the District continues to be funded under the Basic Aid Provision. So, it is the growth in property tax that is closely watched. As a result, the District's budget should continue to be managed with a great degree of conservatism. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(PREPARED BY DISTRICT MANAGEMENT)

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District Office, Los Gatos Union School District, 17010 Roberts Road, Los Gatos, California 95032.

LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 24,453,547
Receivables (Note 3)	1,010,844
OPEB Asset (Note 8, 1H)	351,085
Prepaid Expenses (Note 1H)	16,918
Capital Assets (Note 5)	
Land	241,224
Sites and Improvements	1,053,965
Buildings and Improvements	155,225,175
Furniture and Equipment	554,100
Work-in-Progress	192,680
Less: Accumulated Depreciation	(45,148,499)
Total Assets	137,951,039
<u>Deferred Outflows of Resources</u>	
Pension Deferrals (Note 9)	2,746,454
Bond Refunding (Note 1H)	2,911,916
Total Deferred Outflows of Resources	5,658,370
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	1,801,907
Accrued Interest Payable	1,394,379
Unearned Revenue (Note 1H)	343,846
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1H)	96,764
General Obligation Bonds (Note 6)	5,230,000
Bond Premium (Note 1H)	282,943
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 6)	89,255,000
Bond Premium (Note 1H)	3,257,084
Net Pension Liabilities (Note 9)	29,821,982
Total Liabilities	131,483,905
<u>Deferred Inflows of Resources</u>	
Pension Deferrals (Note 9)	2,909,235
<u>Net Position</u>	
Net Investment in Capital Assets	17,005,534
Restricted:	
For Capital Projects	15,861
For Debt Service	6,084,781
For Educational Programs	1,443,010
For Other Purposes	389,392
Unrestricted (Deficit)	(15,722,309)
Total Net Position	\$ 9,216,269

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<u>Governmental Activities</u>					
Instruction	\$ 26,812,383		\$ 2,481,978	\$ 3,908,780	\$ (20,421,625)
Instruction-Related Services:					
Supervision of Instruction	553,702		12,697		(541,005)
Instructional Library and Technology	203,007		1,840		(201,167)
School Site Administration	2,334,890		64,077		(2,270,813)
Pupil Services:					
Home-to-School Transportation	51,094		1,630		(49,464)
Food Services	720,924	\$ 472,975	64,606		(183,343)
Other Pupil Services	1,657,651		193,528		(1,464,123)
General Administration:					
Data Processing Services	818,621		13,230		(805,391)
Other General Administration	2,215,083		18,854		(2,196,229)
Plant Services	3,783,140		612		(3,782,528)
Interest on Long-Term Debt	3,235,550				(3,235,550)
Other Outgo	398,216		1,652,339		1,254,123
Total Governmental Activities	<u>\$ 42,784,261</u>	<u>\$ 472,975</u>	<u>\$ 4,505,391</u>	<u>\$ 3,908,780</u>	<u>(33,897,115)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					24,005,703
Taxes Levied for Debt Service					8,258,201
Taxes Levied for Specific Purposes					4,712,994
Federal and State Aid - Unrestricted					3,075,681
Interest and Investment Earnings					115,595
Transfers from Other Agencies					76,108
Miscellaneous					612,268
Total General Revenues					<u>40,856,550</u>
Change in Net Position					6,959,435
Net Position - July 1, 2015					2,256,834
Net Position - June 30, 2016					<u>\$ 9,216,269</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**LOS GATOS UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Capital Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Deposits and Investments (Note 2)	\$ 10,882,595	\$ 7,470,628	\$ 457,250	\$ 5,575,907	\$ 67,167	\$ 24,453,547
Receivables (Note 3)	975,892	8,532	812	13,982	11,626	1,010,844
Due from Other Funds (Note 4)				380,000	25,000	405,000
Prepaid Expenditures (Note 1H)	16,918					16,918
Total Assets	<u>\$ 11,875,405</u>	<u>\$ 7,479,160</u>	<u>\$ 458,062</u>	<u>\$ 5,969,889</u>	<u>\$ 103,793</u>	<u>\$ 25,886,309</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts Payable	\$ 453,040		\$ 76,290	\$ 1,234,013	\$ 38,564	\$ 1,801,907
Due to Other Funds (Note 4)	25,000		380,000			405,000
Unearned Revenue (Note 1H)	297,206				46,640	343,846
Total Liabilities	<u>775,246</u>		<u>456,290</u>	<u>1,234,013</u>	<u>85,204</u>	<u>2,550,753</u>
Fund Balances: (Note 11)						
Nonspendable	19,718					19,718
Restricted	1,443,010	\$ 7,479,160	1,772	14,089	18,589	8,956,620
Assigned	833,834			4,721,787		5,555,621
Unassigned	8,803,597					8,803,597
Total Fund Balances	<u>11,100,159</u>	<u>7,479,160</u>	<u>1,772</u>	<u>4,735,876</u>	<u>18,589</u>	<u>23,335,556</u>
Total Liabilities and Fund Balances	<u>\$ 11,875,405</u>	<u>\$ 7,479,160</u>	<u>\$ 458,062</u>	<u>\$ 5,969,889</u>	<u>\$ 103,793</u>	<u>\$ 25,886,309</u>

**LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balances - Governmental Funds \$ 23,335,556

Amounts reported for governmental activities in the statement of net position are different from amounts reported in governmental funds due to the following:

Contributions to OPEB plans that are in excess of the actuarial determined annual OPEB expense, result in OPEB Assets that are not financial resources and therefore are not reported as assets in governmental funds. The amount of OPEB Assets recognized at year-end was: 351,085

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. Capital assets and accumulated depreciation are:

Capital Assets	\$ 157,267,144	
Accumulated Depreciation	(45,148,499)	
Net		112,118,645

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. (162,781)

Unamortized costs: In governmental funds, any gain or loss that results from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from refunding, reported as deferred outflows of resources, was: 2,911,916

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owed at the end of the period was: (1,394,379)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

Compensated Absences	96,764	
General Obligation Bonds	94,485,000	
Bond Premium	3,540,027	
Net Pension Liability - CalSTRS	24,883,701	
Net Pension Liability - CalPERS	4,938,281	
		(127,943,773)

Total Net Position - Governmental Activities \$ 9,216,269

**LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General	Bond Interest and Redemption	Capital Facilities	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
<u>Revenues</u>						
LCFF Sources:						
State Apportionment / Transfers	\$ 770,755					\$ 770,755
Local Taxes	24,011,697					24,011,697
Total LCFF Sources	24,782,452					24,782,452
Federal Revenue	607,688				\$ 58,106	665,794
State Revenue	4,013,156	\$ 29,809			3,910,849	7,953,814
Local Revenue	6,863,386	8,435,344	\$ 508,172	\$ 56,952	477,782	16,341,636
Total Revenues	36,266,682	8,465,153	508,172	56,952	4,446,737	49,743,696
<u>Expenditures</u>						
Current:						
Instruction	23,247,372					23,247,372
Supervision of Instruction	485,603					485,603
Instructional Library and Technology	183,228					183,228
School Site Administration	2,045,361					2,045,361
Home-To-School Transportation	46,116					46,116
Food Services					650,685	650,685
Other Pupil Services	1,442,457					1,442,457
Data Processing Services	739,355					739,355
Other General Administration	1,990,276					1,990,276
Plant Services	3,211,408					3,211,408
Facilities Acquisition and Construction	133,350		2,258,395	4,890,551	3,908,780	11,191,076
Other Outgo	272,684					272,684
Debt Service:						
Principal Retirement	51,552	15,775,000				15,826,552
Interest and Issuance Costs	1,768	4,370,128				4,371,896
Total Expenditures	33,850,530	20,145,128	2,258,395	4,890,551	4,559,465	65,704,069
Excess of Revenues Over (Under) Expenditures	2,416,152	(11,679,975)	(1,750,223)	(4,833,599)	(112,728)	(15,960,373)
<u>Other Financing Sources (Uses)</u>						
Operating Transfers In					110,000	110,000
Operating Transfers Out	(110,000)					(110,000)
Other Sources		11,784,140				11,784,140
Total Other Financing Sources (Uses)	(110,000)	11,784,140	0	0	110,000	11,784,140
Net Change in Fund Balances	2,306,152	104,165	(1,750,223)	(4,833,599)	(2,728)	(4,176,233)
Fund Balances - July 1, 2015	8,794,007	7,374,995	1,751,995	9,569,475	21,317	27,511,789
Fund Balances - June 30, 2016	\$ 11,100,159	\$ 7,479,160	\$ 1,772	\$ 4,735,876	\$ 18,589	\$ 23,335,556

LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Governmental Funds \$ (4,176,233)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlays	\$ 11,001,542	
Depreciation Expense	(3,814,407)	
Net	7,187,135	7,187,135

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (11,390,000)

Pension liabilities: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual-basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (996,565)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned during the fiscal year. The difference between amounts paid and amounts earned was: 12,331

Post employment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs accrued and employer contributions was: (120,459)

Debt issue premium: In governmental funds, if debt is issued at a premium, the premium is recognized as other financing sources. In the government-wide statements, the premium is amortized over the life of the debt. The amount recognized in governmental funds as a premium from debt was: (394,140)

Amortization of gain or loss from debt refunding: In governmental funds, any gain or loss resulting from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. Current year amortization of deferred amounts from refunding were: 375,384

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

General Obligation Bonds	15,775,000	
Bond Premium	508,708	
Capital Lease	51,552	
Total	16,335,260	16,335,260

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest expense is recognized in the period that it is incurred. Unmatured interest owed at the end of the period, less matured interest paid during the period but owed from the prior period, was: 126,722

Change in Net Position of Governmental Activities \$ 6,959,435

LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 5,891	\$ 5,891
<u>Liabilities</u>		
Due to Student Groups	5,891	5,891
<u>Net Position</u>		
Total Net Position	\$ 0	\$ 0

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Los Gatos Union School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Trustees elected by registered voters of the District, which comprises an area in Santa Clara County. The District was established in 1863 and serves students in kindergarten through grade eight.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation

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 non-fiduciary activities of the District and its component units, when applicable.

The government-wide financial 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, include 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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded)

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 which 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 focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances 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. Under the 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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Revenues - Exchange and Non-exchange Transactions (Concluded):

For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

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.

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 unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

On an 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, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

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 maintains the following governmental fund types:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - 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. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - 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.

The District's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

General Fund is the general operating fund of the District.

Bond Interest and Redemption Fund is used to account for the accumulation of resources for the repayment of District bonds, interest, and related costs.

Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Capital Projects - Special Reserve Fund is used to accumulate funds for major maintenance and capital outlay projects of the District. The proceeds from rental activities and major dispositions of District property are accounted for in this fund, when applicable.

Non-major Governmental Funds:

Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.

County School Facilities Fund is used to account for state apportionments (Education Code Sections 17009.5 and 17070.10-17076.10).

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains one agency fund for the student body activities at Los Gatos Middle School. The student body funds are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America 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 Board of Trustees satisfied these requirements.

These budgets are revised by the District's Board of Trustees and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 53.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Use of Estimates

The preparation 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

1. Deposits and Investments (Concluded)

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

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

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Other Post Employment Benefits (OPEB) Asset

This asset represents District contributions to the OPEB plan in excess of the actuarial determined OPEB expense. Further details on the OPEB plan are disclosed in Note 8. Reported assets are equally offset by a reserve, which indicates that this amount is not available for appropriation.

3. Prepaid Expenses/Expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to recognize expenditures during the benefiting period. Reported expenses are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

4. Capital Assets (Concluded)

Asset Class	Years
Sites and Improvements	7-33
Buildings and Improvements	20-50
Furniture and Equipment	5-10

5. Deferred Outflows/Inflows of Resources

In addition to assets, the District 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District 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 and so will not be recognized as an inflow of resources until that time.

6. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

7. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

8. Pensions

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

9. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Fund Balances

Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority (Board of Trustees). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision making authority or a body or official that has been given the authority to assign funds. In accordance with board policy, the Chief Business Official has been given this authority.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. In accordance with board policy, the District intends to maintain a Reserve for Economic Uncertainties of at least 15% of the General Fund's annual total expenditures and other financing uses.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

10. Fund Balances (Concluded)

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

11. Local Control Funding Formula (LCFF)/Property Tax

As part of the 2013-14 State Budget Act, the formula for determining the level of funding per student changed from the "revenue limit" formula to the "Local Control Funding Formula" (LCFF). The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

The County of Santa Clara is responsible for assessing, collecting and apportioning property taxes to the District. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative 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. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

Since the amount of property taxes received by the District exceeds the amount of the LCFF transition entitlement, the District is considered to be a "basic aid" school district, and is permitted to keep all of its property tax revenue. In addition, as guaranteed by the California Constitution, the State must apportion \$120 per pupil to the District. However, the categorical aid that the District receives counts toward this requirement.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 12,500	\$ 5,891
Cash in Revolving Fund	2,800	
Cash with Fiscal Agent	47,174	
County Pool Investments	<u>24,391,073</u>	
Totals	<u>\$ 24,453,547</u>	<u>\$ 5,891</u>

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

Cash with Fiscal Agent

Cash with fiscal agent consists of construction retentions held in escrow accounts maintained at commercial banks that will be released to the contractor upon the successful completion of the related projects.

County Pool Investments

County pool investments consist of District cash held by the Santa Clara County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

General Authorization

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization (Concluded)

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Carrying Value	Fair Value	Less Than 1 Year	More Than 1 Year
County Pool Investments	\$ 24,391,073	\$ 24,464,467	\$ 13,142,480	\$ 11,248,593

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 24,391,073	\$ 24,464,467			\$ 24,391,073

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110 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. As of June 30, 2016, the District does not have a bank balance that is exposed to custodial credit risk.

Custodial Credit Risk - Investments

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 possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2016, the District does not have any investments held outside of the Santa Clara County Treasury.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Santa Clara County Treasury was not available.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - RECEIVABLES

Receivables at June 30, 2016 consist of the following:

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Capital Facilities Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 261,901				\$ 174	\$ 262,075
State Government	399,139				7	399,146
Local Governments	39,158					39,158
Interest	24,687	\$ 8,532	\$ 812	\$ 13,982	99	48,112
Miscellaneous	<u>251,007</u>				<u>11,346</u>	<u>262,353</u>
Totals	<u>\$ 975,892</u>	<u>\$ 8,532</u>	<u>\$ 812</u>	<u>\$ 13,982</u>	<u>\$ 11,626</u>	<u>\$ 1,010,844</u>

NOTE 4 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, 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. 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.

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2016 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General		\$ 25,000
Cafeteria	\$ 25,000	
Capital Facilities		380,000
Capital Projects - Special Reserve	<u>380,000</u>	
Totals	<u>\$ 405,000</u>	<u>\$ 405,000</u>

All interfund receivables and payables are scheduled to be paid within one year.

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - INTERFUND ACTIVITIES (CONCLUDED)

B. Interfund Transfers (Concluded)

Interfund transfers for fiscal year 2015-16 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 110,000
Cafeteria	\$ 110,000	<u> </u>
Totals	<u>\$ 110,000</u>	<u>\$ 110,000</u>

Transfer of \$110,000 from General Fund to Cafeteria Fund to supplement the child nutrition program.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2016, is shown below:

	<u>Balances</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2016</u>
Land	\$ 241,224			\$ 241,224
Sites and Improvements	1,053,965			1,053,965
Buildings and Improvements	141,101,595	\$ 14,123,580		155,225,175
Furniture and Equipment	544,878	9,222		554,100
Work-in-Progress	3,323,940	192,680	\$ 3,323,940	192,680
Totals at Historical Cost	<u>146,265,602</u>	<u>14,325,482</u>	<u>3,323,940</u>	<u>157,267,144</u>
Less Accumulated Depreciation for:				
Sites and Improvements	532,343	39,975		572,318
Buildings and Improvements	40,390,289	3,748,229		44,138,518
Furniture and Equipment	411,460	26,203		437,663
Total Accumulated Depreciation	<u>41,334,092</u>	<u>3,814,407</u>	<u>0</u>	<u>45,148,499</u>
Governmental Activities				
Capital Assets, net	<u>\$ 104,931,510</u>	<u>\$ 10,511,075</u>	<u>\$ 3,323,940</u>	<u>\$ 112,118,645</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 2,612,312
Instruction-Related Services	301,213
Pupil Services	236,721
General Administration	295,572
Plant Services	<u>368,589</u>
Total	<u>\$ 3,814,407</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - GENERAL OBLIGATION BONDS

On December 17, 2015, the District issued \$11,390,000 of general obligation refunding bonds for purposes of advance refunding the District's outstanding Election of 2001 (Series D) General Obligation Bonds of \$10,820,000, and to pay costs of issuance related to the refunding bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements (Note 7). The reacquisition price exceeded the net carrying amount of the old debt by \$570,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which has the same life as the new debt issued. The refunding bonds were issued to lower the District's debt service requirements and reduce the tax burden on those who own property within the District. The advance refunding resulted in a net present value savings of \$1,470,755.

The outstanding general obligation debt of the District as of June 30, 2016 is as follows:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2015	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2016
12/18/03	3.00-5.00	8/1/30	\$ 25,000,000	\$ 1,850,000		\$ 400,000	\$ 1,450,000
11/29/05	3.00-5.13	8/1/32	18,000,000	450,000		450,000	0
5/10/07	4.00	8/1/32	13,000,000	11,450,000		11,015,000	435,000
10/19/11	2.00-4.75	8/1/26	28,190,000	23,970,000		1,620,000	22,350,000
5/25/11	2.00-4.75	8/1/35	11,360,000	6,600,000		300,000	6,300,000
5/25/11	3.25-5.10	8/1/25	4,340,000	4,340,000		0	4,340,000
12/20/11	3.20	8/1/30	22,220,000	21,235,000		210,000	21,025,000
11/27/12	2.00-4.00	8/1/37	15,200,000	11,765,000		1,425,000	10,340,000
10/21/14	2.00-5.00	8/1/32	17,210,000	17,210,000		355,000	16,855,000
12/17/15	2.00-5.00	8/1/32	<u>11,390,000</u>	<u>0</u>	<u>\$11,390,000</u>	<u>0</u>	<u>11,390,000</u>
Totals			<u>\$165,910,000</u>	<u>\$ 98,870,000</u>	<u>\$11,390,000</u>	<u>\$ 15,775,000</u>	<u>\$ 94,485,000</u>

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2016, are as follows:

Year Ended June 30	Principal	Interest	Totals
2017	\$ 5,230,000	\$ 3,292,141	\$ 8,522,141
2018	4,080,000	3,118,931	7,198,931
2019	4,200,000	2,952,344	7,152,344
2020	4,320,000	2,782,909	7,102,909
2021	4,470,000	2,609,134	7,079,134
2022-2026	25,015,000	10,214,897	35,229,897
2027-2031	29,100,000	5,396,649	34,496,649
2032-2036	16,180,000	1,177,787	17,357,787
2037-2041	<u>1,890,000</u>	<u>57,150</u>	<u>1,947,150</u>
Totals	<u>\$ 94,485,000</u>	<u>\$ 31,601,942</u>	<u>\$ 126,086,942</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 - DEFEASED DEBT

Certain general obligation bonds of the District have been defeased by placing the proceeds of refunding bonds in irrevocable escrow accounts held and managed by bank trustees, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in accordance with the schedule of remaining payments due. Accordingly, the escrow accounts and the defeased debt are not included in the District's financial statements. The defeased bonds outstanding at June 30, 2016 considered extinguished are as follows:

<u>Bond Series</u>	<u>Maturities Refunded</u>	<u>Principal Refunded</u>
Election of 2001, Series D	2018-2032	\$ 10,820,000

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in future years when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

Plan Descriptions: The District provides retiree health benefits to employees hired prior to June 30, 2010, based on age, service and eligibility for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). The District provides coverage to the following groups of employees and the District and retirees share in the cost of benefits as follows:

	Management	Certificated	Classified
Benefits provided	Medical, Dental, Vision, and Life Insurance	Medical, Dental, Vision, and Life Insurance	Medical, Dental, Vision, and Life Insurance
Duration of benefits	To age 65	To age 65	To age 65
Required service	10 years *	10 years *	10 years *
Minimum age	55	55	55
Dependent coverage	Yes	Yes	Yes
District contribution	100%	100%	100%
District cap	Premium in Provider's Service Area	Premium in Provider's Service Area	Premium in Provider's Service Area

* Ten years' service entitles the retiree to "retiree-only coverage. For 15 years of service or more, the retiree also qualifies to cover spouse.

All contracts with District employees may be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The District had 180 eligible active employees and 29 eligible retired employees covered under the OPEB plan as of July 1, 2014, the effective date of the biennial OPEB valuation. For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

Funding Policy: During fiscal year 2009-10, the District joined Self Insured Schools of California (SISC) GASB 45 Trust, which was established to provide governmental agencies a mechanism for pre-funding OPEB liabilities. SISC is an agent multiple-employer plan as defined in GASB 43 with pooled administrative and investment functions. The Trust is administered by SISC. SISC issues a publicly available financial report that included financial statements and required supplementary information for the Trust. That report may be obtained by writing to SISC GASB 45 Trust, P.O. Box 1847, Bakersfield, CA 93303-1847 or by calling (661) 636-4710.

Annual OPEB Cost and Net OPEB Obligation (Asset): The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation (asset) that resulted in a net OPEB obligation (asset) of (\$351,085) for the year ended June 30, 2016:

Annual required contribution (ARC)	\$ 582,941
Interest on net OPEB obligation (asset)	(33,600)
Adjustment to ARC	<u>31,108</u>
Annual OPEB cost (expense)	580,449
Contributions for the fiscal year	<u>(459,990)</u>
Decrease in net OPEB asset	120,459
Net OPEB asset - June 30, 2015	<u>(471,544)</u>
Net OPEB asset - June 30, 2016	<u><u>\$ (351,085)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the last three fiscal years are presented in the following table:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2016	\$ 580,449	79.2%	\$ (351,085)
June 30, 2015	558,684	87.4%	(471,544)
June 30, 2014	648,335	69.9%	(541,993)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial Methods and Assumptions (Concluded):

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

In the July 1, 2014, actuarial valuation, the liabilities were computed using the entry age normal method with a 30-year level dollar percentage of salaries amortization of the unfunded actuarial accrued liability (UAAL). The actuarial valuation utilized a 7% discount rate, based on assumed long-term return on plan assets assuming 100% funding through SISC. A compensation increase rate of 3% and general inflation rate of 3% was used in the valuation. The initial medical trend rate was assumed to be 6.5% for 2016 and grades down by 0.5% per year to an ultimate rate of 4% for all future years. The dental, vision, and life insurance premiums trend rate are assumed to be 4% per year.

NOTE 9 - RETIREMENT PLANS

Qualified employees are covered under retirement plans maintained by agencies of the State of California. Certificated employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California State Teachers' Retirement System (CalSTRS) and classified employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California Public Employees' Retirement System (CalPERS).

The District reported net pension liabilities, deferred outflows of resources, and deferred inflows of resources in the accompanying statement of net position as follows:

<u>Pension Plan</u>	<u>Net Pension Liabilities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
CalSTRS	\$ 24,883,701	\$ 1,832,761	\$ 2,462,580
CalPERS	4,938,281	913,693	446,655
Totals	<u>\$ 29,821,982</u>	<u>\$ 2,746,454</u>	<u>\$ 2,909,235</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established the plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity of the STRP.

The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on a members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas and some of the differences are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Benefits Provided (Concluded)

CalSTRS 2% at 60 (Concluded)

CalSTRS calculates retirement benefits based on one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of service, or for classroom teachers with less than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for any 36 consecutive months of credited service.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Under CalSTRS 2% at 60, the member contribution rate was 9.20% of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, the member contribution rate was 8.56% of applicable member earnings for fiscal year 2015-16. The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 10.73% of applicable member earnings for fiscal year 2015-16. The District contributed \$1,832,761 to the plan for the fiscal year ended June 30, 2016.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469 - Bonta, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2016 was 2.874%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 7.391% for the fiscal year ended June 30, 2016.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the District was as follows:

District's proportionate share of the net pension liability	\$ 24,883,701
State's proportionate share of the net pension liability associated with the District	<u>526,990</u>
Total net pension liability attributed to District	<u><u>\$ 25,410,691</u></u>

The net 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 June 30, 2014. The District's proportion of the net pension liability was based on a District's share of contributions to the pension plan relative to the contributions of all participating school districts and the State. The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0370%
Proportion - June 30, 2015	<u>0.0370%</u>
Change - Increase (Decrease)	<u><u>0.0000%</u></u>

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$4,004,563, which includes \$1,186,356 of support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 1,832,761	
Differences between expected and actual experience		\$ 415,656
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		18,204
Net differences between projected and actual earnings on plan investments		<u>2,028,720</u>
Totals	<u><u>\$ 1,832,761</u></u>	<u><u>\$ 2,462,580</u></u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (911,918)
2018	(911,918)
2019	(911,918)
2020	417,794
2021	(72,310)
2022	(72,310)

Differences between expected and actual experience, changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

¹ Net of investment expenses, but gross of administrative expenses. CalSTRS uses a 7.5% assumed investment rate of return for funding purposes, which is net of administrative expenses.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions (Concluded)

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investments expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash / Liquidity	1%	0.00%
Total	<u>100%</u>	

* 10-year geometric average

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases as per AB 1469 - Bonta. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.60%, 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 one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	Discount Rate 1% Decrease <u>6.60%</u>	Discount Rate Current Rate <u>7.60%</u>	Discount Rate 1% Increase <u>8.60%</u>
District's proportionate share of the net pension liability	\$ 37,572,451	\$ 24,883,701	\$ 14,338,325

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 11.847% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2016 was \$468,913.

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported a liability of \$4,938,281 for its proportionate share of the net pension liability. The net 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 June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. 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. The District's proportionate share of the net pension liability as of June 30, 2014 and June 30, 2015 was as follows:

Proportion - June 30, 2014	0.0321%
Proportion - June 30, 2015	0.0335%
Change - Increase (Decrease)	0.0014%

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$480,031. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 468,913	
Differences between expected and actual experience	284,664	
Changes of assumptions		\$ 306,036
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	160,116	12,484
Net differences between projected and actual earnings on plan investments		<u>128,135</u>
Totals	<u>\$ 913,693</u>	<u>\$ 446,655</u>

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2017	\$ (70,294)
2018	(70,294)
2019	(64,052)
2020	202,765

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2015. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial methods and assumptions:

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Actuarial Assumptions (Concluded)

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Consumer Price Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return (1)	7.50%
Post Retirement Benefit Increase (2)	

- (1) Net of pension plan investment and administrative expenses, includes inflation
(2) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor
on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. For the Schools Pool, this difference was deemed immaterial.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Discount Rate (Concluded)

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RETIREMENT PLANS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

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 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	Discount Rate 1% Decrease 6.50%	Discount Rate Current Rate 7.50%	Discount Rate 1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 8,037,464	\$ 4,938,281	\$ 2,361,104

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. Both the District and participating employees were required to contribute 6.2% of an employee's gross earnings, up to the annual limit.

NOTE 10 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2016, is shown below:

	Balances July 1, 2015	Additions	Deductions	Balances June 30, 2016	Due within One Year
Compensated Absences	\$ 109,095	\$ 96,764	\$ 109,095	\$ 96,764	\$ 96,764
General Obligation Bonds	98,870,000	11,390,000	15,775,000	94,485,000	5,230,000
Bond Premium	3,654,595	394,140	508,708	3,540,027	282,943
Capital Lease	51,552	0	51,552	0	0
Net Pension Liability - CalPERS	21,600,157	3,283,544	0	24,883,701	0
Net Pension Liability - CalSTRS	3,644,414	1,293,867	0	4,938,281	0
Totals	\$ 127,929,813	\$ 16,458,315	\$ 16,444,355	\$ 127,943,773	\$ 5,609,707

Compensated absences are obligations of the General Fund, the net pension liabilities are obligations of the General Fund and Cafeteria Fund, and general obligation bonds are obligations of the Bond Interest and Redemption Fund.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - FUND BALANCES

The fund balances as of June 30, 2016 are as follows:

	General Fund	Bond Interest and Redemption Fund	Capital Facilities Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Totals
Nonspendable:						
Revolving Cash	\$ 2,800					\$ 2,800
Prepaid Expenditures	16,918					16,918
Total Nonspendable	<u>19,718</u>					<u>19,718</u>
Restricted:						
Categorical Programs	1,443,010			\$ 14,089		1,457,099
Food Service Programs					\$ 18,589	18,589
Capital Projects			\$ 1,772			1,772
Debt Service		\$ 7,479,160				7,479,160
Total Restricted	<u>1,443,010</u>	<u>7,479,160</u>	<u>1,772</u>	<u>14,089</u>	<u>18,589</u>	<u>8,956,620</u>
Assigned:						
Deferred Maintenance Projects	833,834					833,834
Building Projects				4,721,787		4,721,787
Total Assigned	<u>833,834</u>			<u>4,721,787</u>		<u>5,555,621</u>
Unassigned:						
Reserve for Economic Uncertainties	5,076,596					5,076,596
Remaining Unassigned Balances	3,727,001					3,727,001
Total Unassigned	<u>8,803,597</u>					<u>8,803,597</u>
Total Fund Balances	<u>\$ 11,100,159</u>	<u>\$ 7,479,160</u>	<u>\$ 1,772</u>	<u>\$ 4,735,876</u>	<u>\$ 18,589</u>	<u>\$ 23,335,556</u>

NOTE 12 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) for K-12 Education. These payments consist of state general fund contributions to CalSTRS of \$1,186,356 (7.12589% of creditable compensation subject to CalSTRS for the 2013-14 fiscal year). These contributions are recorded in the General Fund as revenue and expenditures. The District is not legally responsible for these contributions.

NOTE 13 - JOINT VENTURE

The District participates in one joint venture under a joint powers agreement (JPA) with the Santa Clara County School District Insurance Group (SCCSIG) for property, liability and workers' compensation insurance coverage. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and/or provide coverage or services for its members. The JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA. The JPA is audited on an annual basis. Audited financial statements can be obtained by contacting the JPA management.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015-16, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years.

NOTE 15 - ECONOMIC DEPENDENCY

During the year, the District received \$2,751,247 of parcel tax revenue that is subject to voter approval. The parcel tax revenue is used to support various programs of the District and has been approved through June 30, 2022.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received other state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

NOTE 17 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 7, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions (except as noted below) that require disclosure in or adjustment to the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 650,408	\$ 770,755	\$ 770,755	
Local Sources	22,746,710	24,011,697	24,011,697	
Total LCFF Sources	23,397,118	24,782,452	24,782,452	
Federal Revenue	602,725	607,688	607,688	
Other State Revenue	732,122	4,013,156	4,013,156	
Other Local Revenue	6,586,892	6,863,386	6,863,386	
Total Revenues	31,318,857	36,266,682	36,266,682	
<u>Expenditures</u>				
Certificated Salaries	16,833,579	17,196,631	17,196,631	
Classified Salaries	4,056,316	4,199,817	4,199,817	
Employee Benefits	5,814,418	7,014,047	7,014,047	
Books and Supplies	963,719	1,537,316	1,537,316	
Services and Other				
Operating Expenditures	2,879,316	3,466,272	3,466,272	
Capital Outlay	65,000	110,442	110,442	
Debt Service:				
Principal Retirement	51,000	51,552	51,552	
Interest and Fiscal Charges	3,000	1,768	1,768	
Other Expenditures	140,220	272,685	272,685	
Total Expenditures	30,806,568	33,850,530	33,850,530	
Excess of Revenues Over Expenditures	512,289	2,416,152	2,416,152	
<u>Other Financing (Uses)</u>				
Operating Transfers Out	(45,000)	(110,000)	(110,000)	
Net Change in Fund Balances	467,289	2,306,152	2,306,152	\$ 0
Fund Balances - July 1, 2015	8,794,007	8,794,007	8,794,007	
Fund Balances - June 30, 2016	\$ 9,261,296	\$ 11,100,159	\$ 11,100,159	

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
7/1/14	\$ 1,500,541	\$ 6,085,752	\$ 4,585,211	24.7%	\$ 14,012,802	32.7%
7/1/12	1,124,103	6,109,574	4,985,471	18.4%	15,334,021	32.5%
7/1/11	1,136,550	6,097,661	4,961,111	18.6%	14,948,475	33.2%

LOS GATOS UNION SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS *

JUNE 30, 2016

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Employee Payroll	District's Proportionate Share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2016	0.0370%	\$ 24,883,701	\$ 526,990	\$ 25,410,691	\$ 17,155,383	145.05%	74.02%
2015	0.0370%	21,600,157	511,373	22,111,530	16,463,491	131.20%	76.52%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

LOS GATOS UNION SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS *

JUNE 30, 2016

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Employee Payroll	District's Proportionate Share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2016	0.0335%	\$ 4,938,281	\$ 3,709,031	133.14%	79.43%
2015	0.0321%	3,644,414	3,369,962	108.14%	83.38%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALSTRS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Employee Payroll	Contributions As a % of Covered Employee Payroll
2016	\$ 1,832,761	\$ 1,832,761	\$ -	\$ 17,080,718	10.73%
2015	1,503,642	1,503,642	-	16,932,905	8.88%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALPERS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Employee Payroll</u>	<u>Contributions As a % of Covered Employee Payroll</u>
2016	\$ 468,913	\$ 468,913	\$ -	\$ 3,958,074	11.847%
2015	436,551	436,551	-	3,708,699	11.771%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object. There was no excess of expenditures over appropriations in the General Fund as of June 30, 2016.

B. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board Statement No. 45, the District is required to present a schedule which shows the funding progress of the District's OPEB plan for the most recent valuation and two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability to annual covered payroll.

C. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the District's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the District, if applicable, the District's covered-employee payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

D. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required District contribution, the amount of contributions recognized by the pension plan in relation to the required District contribution, the difference between the required District contribution and the amount recognized by the pension plan, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered-employee payroll.

SUPPLEMENTARY INFORMATION SECTION

**LOS GATOS UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>Cafeteria</u>	<u>County School Facilities</u>	<u>Total Non-Major Governmental Funds</u>
<u>Assets</u>			
Deposits and Investments	\$ 67,167		\$ 67,167
Receivables	11,626		11,626
Due from Other Funds	25,000		25,000
Total Assets	<u>\$ 103,793</u>	<u>\$ 0</u>	<u>\$ 103,793</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 38,564		\$ 38,564
Unearned Revenue	46,640		46,640
Total Liabilities	85,204		85,204
Fund Balances:			
Restricted	18,589		18,589
Total Liabilities and Fund Balances	<u>\$ 103,793</u>	<u>\$ 0</u>	<u>\$ 103,793</u>

**LOS GATOS UNION SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Cafeteria</u>	<u>County School Facilities</u>	<u>Total Non-Major Governmental Funds</u>
<u>Revenues</u>			
Federal Revenue	\$ 58,106		\$ 58,106
State Revenue	2,069	\$ 3,908,780	3,910,849
Local Revenue	477,782		477,782
Total Revenues	<u>537,957</u>	<u>3,908,780</u>	<u>4,446,737</u>
<u>Expenditures</u>			
Current:			
Food Services	650,685		650,685
Facilities Acquisition and Construction		3,908,780	3,908,780
Total Expenditures	<u>650,685</u>	<u>3,908,780</u>	<u>4,559,465</u>
Excess of Revenues (Under) Expenditures	(112,728)	0	(112,728)
<u>Other Financing Sources</u>			
Operating Transfers In	110,000	0	110,000
Net Change in Fund Balances	(2,728)	0	(2,728)
Fund Balances - July 1, 2015	<u>21,317</u>	<u>0</u>	<u>21,317</u>
Fund Balances - June 30, 2016	<u>\$ 18,589</u>	<u>\$ 0</u>	<u>\$ 18,589</u>

LOS GATOS UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

ORGANIZATION

The Los Gatos Union School District was established in 1863 in Santa Clara County. There were no changes in boundaries during the current year. The District is comprised of four elementary schools and one middle school.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Peter Noymer	President	December, 2018
Alex Potts	Clerk	December, 2018
Leigh-Anne Marcellin	Member	December, 2016
Emi Eto	Member	December, 2016
Mani Farhadi	Member	December, 2016

ADMINISTRATION

Diana G. Abbati, Ed. D.
Superintendent

Martin Fregoso
Assistant Superintendent - Business Services / CBO

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	P-2 Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular	1,245.92	1,182.87	799.88	3,228.67
Extended Year - Special Education	0.63	1.14	0.11	1.88
Special Education - NPS / LCI	1.00	2.60	0.22	3.82
Extended Year - NPS / LCI		0.20		0.20
Totals	1,247.55	1,186.81	800.21	3,234.57

	Annual Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular	1,248.73	1,185.76	801.48	3,235.97
Extended Year - Special Education	0.63	1.14	0.11	1.88
Special Education - NPS / LCI	0.98	2.46	0.36	3.80
Extended Year - NPS / LCI		0.20		0.20
Totals	1,250.34	1,189.56	801.95	3,241.85

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	180	N/A	In Compliance
Grade 1	50,400	51,664	180	N/A	In Compliance
Grade 2	50,400	51,664	180	N/A	In Compliance
Grade 3	50,400	51,664	180	N/A	In Compliance
Grade 4	54,000	54,199	180	N/A	In Compliance
Grade 5	54,000	54,199	180	N/A	In Compliance
Grade 6	54,000	54,461	180	N/A	In Compliance
Grade 7	54,000	54,461	180	N/A	In Compliance
Grade 8	54,000	54,461	180	N/A	In Compliance

**LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General Fund	Deferred Maintenance Fund	Special Revenue - Special Reserve Fund
June 30, 2016 Annual Financial and Budget Report Fund Balances	\$ 8,040,040	\$ 833,834	\$ 2,226,285
Reclassifications Increasing (Decreasing) Fund Balances:			
Reclassification of Fund Balances	<u>3,060,119</u>	<u>(833,834)</u>	<u>(2,226,285)</u>
June 30, 2016 Audited Financial Statements Fund Balances	<u>\$ 11,100,159</u>	<u>\$ 0</u>	<u>\$ 0</u>

The reclassification of fund balance above was required as a result of the definition of special revenue funds prescribed by GASB 54.

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2016.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	GENERAL FUND			
	(Budget) * 2016-17	2015-16	2014-15	2013-14
Revenues and Other Financial Sources	\$ 35,942,692	\$ 36,266,682	\$ 32,512,734	\$ 30,457,197
Expenditures	35,523,412	33,850,530	31,974,765	28,759,199
Other Uses and Transfers Out	70,000	110,000	400,000	2,840,000
Total Outgo	35,593,412	33,960,530	32,374,765	31,599,199
Change in Fund Balance	349,280	2,306,152	137,969	(1,142,002)
Ending Fund Balance	\$ 11,449,439	\$ 11,100,159	\$ 8,794,007	\$ 8,656,038
Available Reserves	\$ 9,143,720	\$ 8,803,597	\$ 7,229,320	\$ 4,277,011
Reserve for Economic Uncertainties **	\$ 5,310,962	\$ 5,076,596	\$ 4,831,035	\$ 4,277,011
Available Reserves as a Percentage of Total Outgo	25.7%	25.9%	22.3%	13.5%
Average Daily Attendance at P-2	3,289	3,235	3,216	3,169
Total Long-Term Liabilities	\$ 122,334,066	\$ 127,943,773	\$ 127,929,813	\$ 137,634,006

* The amounts reported for the 2016-17 budget are presented for analytical purposes only and have not been audited.

** Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$2,444,121 (28.2%) over the past two years. The fiscal year 2016-17 budget projects an increase of \$349,280 (3.1%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit of \$1,142,002 during fiscal year 2013-14, and produced operating surpluses of \$137,969 and \$2,306,152 during fiscal years 2014-15 and 2015-16, respectively.

Average daily attendance (ADA) increased 66 ADA over the past two years. The District projects an increase of 54 ADA during fiscal year 2016-17.

Total long-term liabilities decreased \$9,690,233 over the past two years due primarily to the payments on the bonds.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MEASURE B PARCEL TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Prior Fiscal Years</u>	<u>Current Fiscal Year</u>	<u>Inception To Date</u>
<u>Revenues</u>			
Parcel Tax Proceeds, Net	\$ 2,748,113	\$ 2,751,247	\$ 5,499,360
Total Revenues	<u>2,748,113</u>	<u>2,751,247</u>	<u>5,499,360</u>
<u>Expenditures</u>			
Salaries and Benefits	2,747,780	2,703,312	5,451,092
Books and Supplies	173	47,935	48,108
Travel	124	0	124
Total Expenditures	<u>2,748,077</u>	<u>2,751,247</u>	<u>5,499,324</u>
Net Change in Fund Balances	36	0	<u>\$ 36</u>
Fund Balances - Beginning	<u>0</u>	<u>36</u>	
Fund Balances - Ending	<u>\$ 36</u>	<u>\$ 36</u>	

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

B. Schedule of Average Daily Attendance

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

C. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year, but the District did not meet or exceed its LCFF funding target. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the Annual Financial and Budget Report to the audited financial statements.

E. Schedule of Financial Trends and Analysis

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

F. Schedule of Revenues, Expenditures, and Changes in Fund Balances - Measure B Parcel Tax

This schedule discloses the revenues, expenditures, and remaining fund balance of the District's Measure B parcel tax. In accordance with the ballot measure, proceeds from the parcel tax are used to retain skilled and qualified teachers, maintain up to date science programs, keep class size as small as possible, continue literacy programs, maintain library staff and services, maintain art and music programs, provide counseling and other student health and safety programs, and maintaining safe and adequate school grounds and facilities.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Los Gatos Union School District
Los Gatos, California

Report on State Compliance

We have audited Los Gatos Union School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state 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 *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards 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 the District's state programs occurred. An audit includes examining, on a test basis, evidence about Los Gatos Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Los Gatos Union School District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No (see below)
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform procedures for the California Clean Energy Jobs Act because the District did not have any program expenditures in fiscal year 2015-16.

Opinion on State Compliance

In our opinion, Los Gatos Union School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2016

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

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

Board of Trustees
Los Gatos Union School District
Los Gatos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Gatos Union School 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 7, 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 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 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 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.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2016

FINDINGS AND QUESTIONED COSTS SECTION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ Yes	_____ X _____	No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ X _____	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X _____	No

State Awards

Any audit findings required to be reported in accordance with the <i>2015-16 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting?</i>	_____ Yes	_____ X _____	No
Type of auditor's report issued on compliance for state programs:	Unmodified		

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to report for the fiscal year ended June 30, 2016.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2016.

**LOS GATOS UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS</u>		
15 - 1 / 10000		
<u>KINDERGARTEN CONTINUANCE</u>		
The District should utilize the pre-approved continuation form included in CDE Management Advisory 90-10 for all pupils who continue in kindergarten for a second year.	Implemented	