

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

**AUDIT REPORT**

**JUNE 30, 2015**

LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2015

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LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2015

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LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2015

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## 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, 2015, 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, 2015, 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 57, schedule of funding progress on page 60, schedules of the proportionate share of the net pension liability on pages 61 and 62, and schedules of contributions on pages 63 and 64 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 combining non-major fund financial statements and supplementary schedules and information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements and supplementary schedules and information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements and supplementary schedules and information listed in the table of contents, including the Schedule of Expenditures of Federal Awards are 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, 2015 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, 2015

**LOS GATOS UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

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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, 2015. 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 2014-15 represents the second 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 \$2,387,410.
- 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 \$2,110,597.
- Capital assets, net of depreciation and loss from disposal of assets, decreased \$567,768 due to the current year addition of \$3,265,728 of new capital assets and improvements, and the current year recognition of \$3,833,496 of depreciation expense.
- Total long-term liabilities increased \$21,118,159 due primarily to implementation of GASB Statement No. 68, which required the District to calculate and include in its financial statements, its proportionate share of the net pension liabilities related to CalSTRS and CalPERS beginning in the 2014-15 fiscal year.
- The District's P-2 average daily attendance (ADA) increased from 3,169 ADA in fiscal year 2013-14, up to 3,216 ADA in fiscal year 2014-15, an increase of 47 ADA or 1.5%.
- 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 2014-15, General Fund expenditures and other financing uses totaled \$32,374,765. At June 30, 2015, the District had available reserves of \$7,229,320 in the General Fund, which represents a reserve of 22.3%.

**LOS GATOS UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

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**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, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

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**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, 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, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

GOVERNMENTAL ACTIVITIES

The District's total net position increased from a restated net position deficit balance of \$130,576 at June 30, 2014, up to \$2,256,834 at June 30, 2015.

<b><u>Comparative Statement of Net Position</u></b>		
	Governmental Activities	
	2014	2015
<b><u>Assets</u></b>		
Deposits and Investments	\$ 31,316,381	\$ 28,287,599
Receivables	860,844	1,202,698
OPEB Asset	541,993	471,544
Prepaid Expenses	20,300	24,467
Capital Assets, net	105,504,260	104,931,510
Total Assets	138,243,778	134,917,818
<b><u>Deferred Outflows of Resources</u></b>		
Pension Deferrals*	1,737,219	2,827,485
Deferred Amount on Refunding	2,140,682	2,536,532
Total Deferred Outflows of Resources*	3,877,901	5,364,017
<b><u>Liabilities</u></b>		
Current	9,029,344	8,912,107
Long-term *	133,222,911	122,541,782
Total Liabilities*	142,252,255	131,453,889
<b><u>Deferred Inflows of Resources</u></b>		
Pension Deferrals	0	6,571,112
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	914,926	4,891,895
Restricted	9,667,737	8,728,038
Unrestricted*	(10,713,239)	(11,363,099)
Total Net Position (Deficit)*	\$ (130,576)	\$ 2,256,834
<p>* The amounts presented for fiscal year 2013-14 have been adjusted to reflect the restatement discussed in Note 19.</p> <p>Table includes financial data of the combined governmental funds.</p>		

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, 2015**

(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 \$2,387,410.

<b><u>Comparative Statement of Changes in Net Position</u></b>		
	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2015</u>
<u>Program Revenues</u>		
Charges for Services	\$ 528,060	\$ 470,841
Operating Grants & Contributions	4,413,763	4,821,284
<u>General Revenues</u>		
Taxes Levied	32,903,501	34,877,013
Federal & State Aid	1,227,902	1,382,223
Interest & Investment Earnings	120,634	107,332
Transfers from Other Agencies	53,839	54,156
Miscellaneous	982,192	504,162
Total Revenues	<u>40,229,891</u>	<u>42,217,011</u>
<u>Expenses</u>		
Instruction	21,931,123	23,897,812
Instruction-Related Services	2,743,326	3,113,522
Pupil Services	2,157,452	2,232,184
General Administration	2,543,132	2,756,338
Plant Services	3,547,967	3,819,275
Interest on Long-Term Debt	3,839,393	3,745,027
Other Outgo	72,694	265,443
Total Expenses	<u>36,835,087</u>	<u>39,829,601</u>
Changes in Net Position	3,394,804	2,387,410
Net Position, Beginning*	<u>3,525,380</u>	<u>(130,576)</u>
Net Position, Ending*	<u>\$ (130,576)</u>	<u>\$ 2,256,834</u>

\* The prior year balances have been adjusted to reflect the restatement of Net Position discussed in Note 19.

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, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

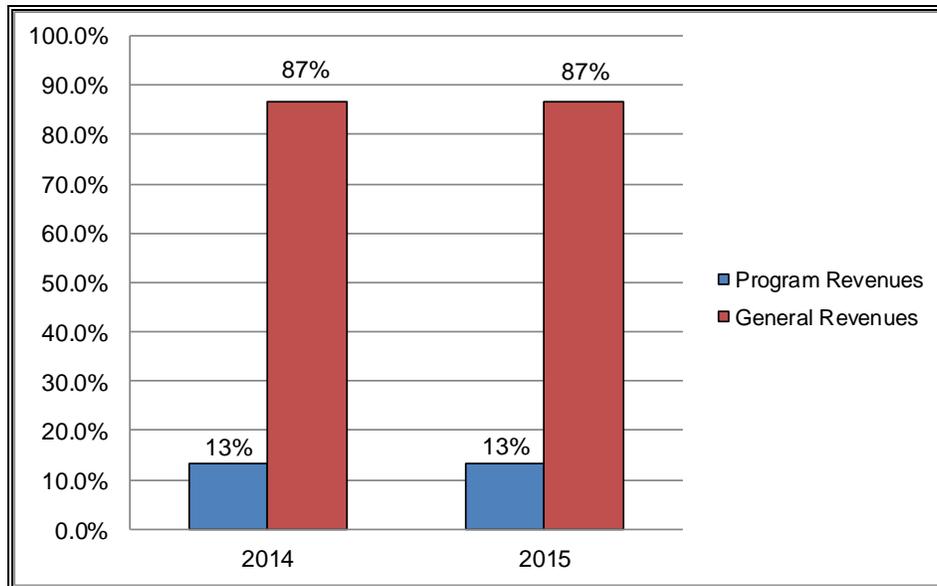
**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Total Cost of Services		Net Cost (Revenue) of Services	
	2014	2015	2014	2015
	Instruction	\$ 21,931,123	\$ 23,897,812	\$ 20,052,548
Instruction-Related Services	2,743,326	3,113,522	2,661,016	2,982,686
General Administration	2,543,132	2,756,338	2,015,562	2,731,393
Plant Services	3,547,967	3,819,275	3,510,779	3,809,391
Interest on Long-Term Debt	3,839,393	3,745,027	3,839,393	3,745,027
Other Expenses	2,230,146	2,497,627	(186,034)	(135,587)
Totals	\$ 36,835,087	\$ 39,829,601	\$ 31,893,264	\$ 34,537,476

*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 \$34,537,476 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



During fiscal year 2014-15, program revenues financed 13% of the total cost of providing the services listed above, while the remaining 87% 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, 2015**

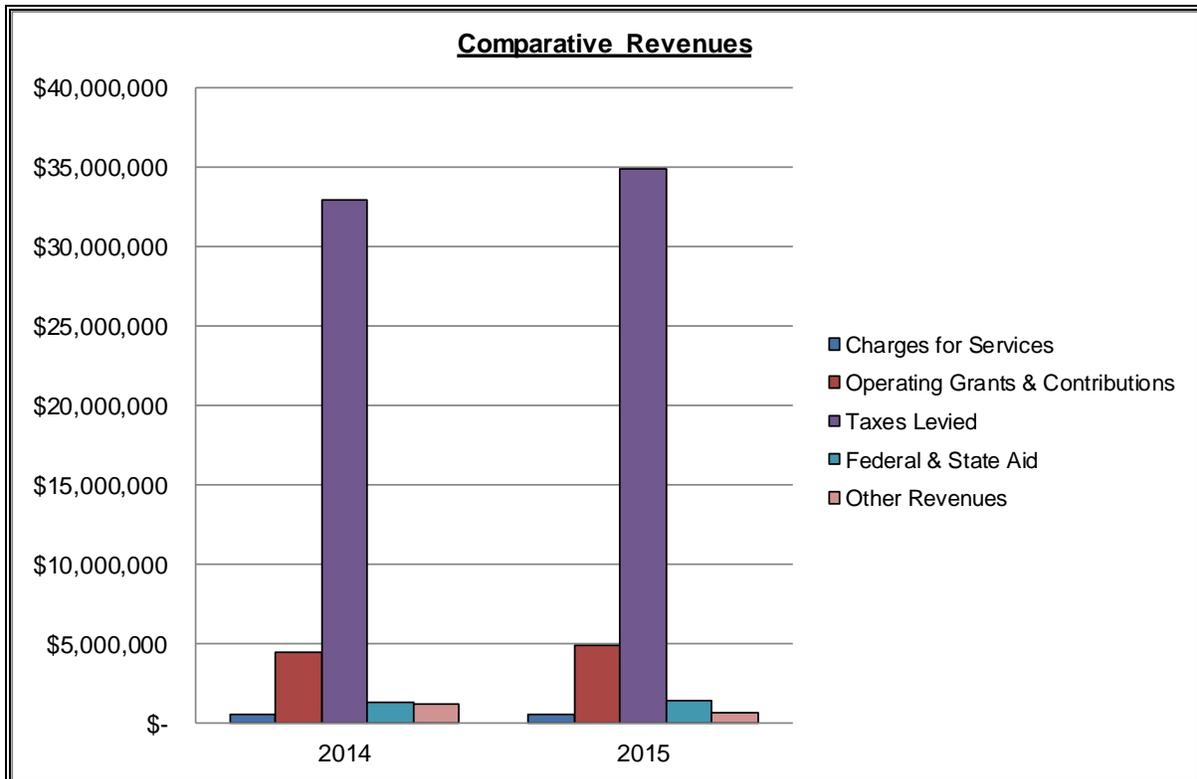
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<b><u>Summary of Revenues For Governmental Functions</u></b>				
	<u>FYE 2014</u> <u>Amount</u>	<u>Percent of</u> <u>Total</u>	<u>FYE 2015</u> <u>Amount</u>	<u>Percent of</u> <u>Total</u>
<b><u>Program Revenues</u></b>				
Charges for Services	\$ 528,060	1.31%	\$ 470,841	1.12%
Operating Grants & Contributions	4,413,763	10.97%	4,821,284	11.42%
<b><u>General Revenues</u></b>				
Taxes Levied	32,903,501	81.79%	34,877,013	82.61%
Federal & State Aid	1,227,902	3.05%	1,382,223	3.27%
Other Revenues	1,156,665	2.88%	665,650	1.58%
<b>Total Revenues</b>	<b><u>\$ 40,229,891</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 42,217,011</u></b>	<b><u>100.00%</u></b>

*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, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

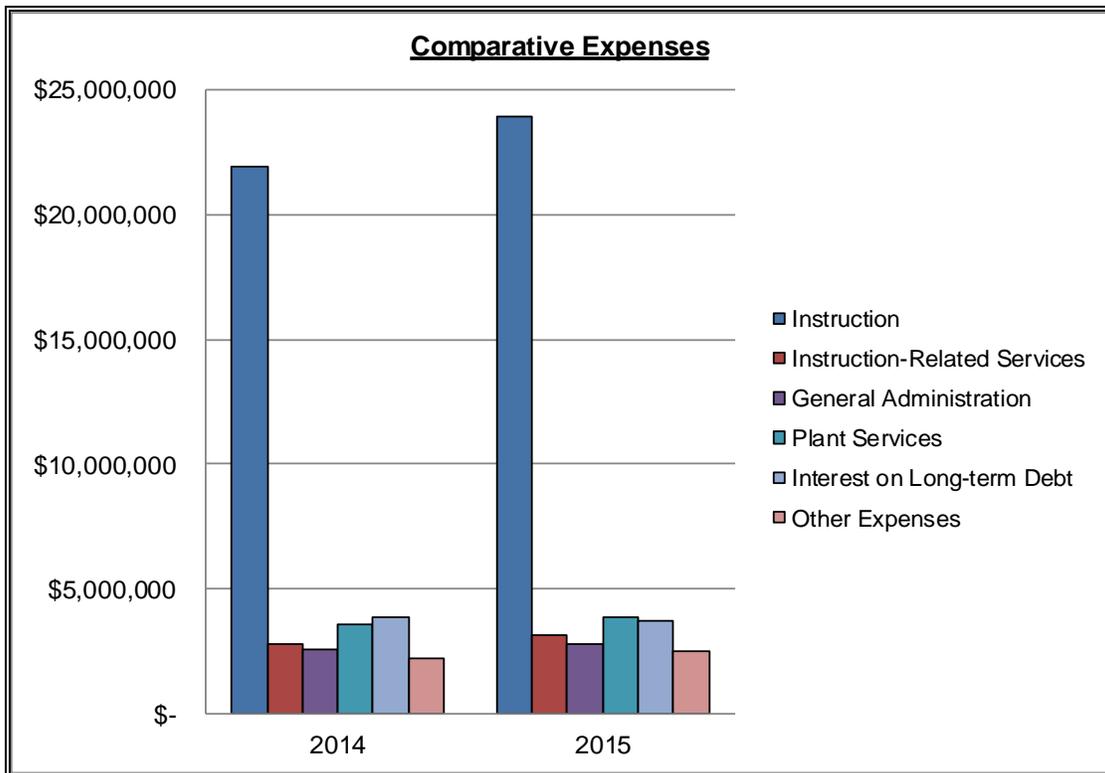
**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)**

GOVERNMENTAL ACTIVITIES (CONTINUED)

**Schedule of Expenses For Governmental Functions**

<u>Expenses</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>	<u>FYE 2015 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 21,931,123	59.54%	\$ 23,897,812	60.00%
Instruction-Related Services	2,743,326	7.45%	3,113,522	7.82%
General Administration	2,543,132	6.90%	2,756,338	6.92%
Plant Services	3,547,967	9.63%	3,819,275	9.59%
Interest on Long-Term Debt	3,839,393	10.42%	3,745,027	9.40%
Other Expenses	2,230,146	6.05%	2,497,627	6.27%
<b>Total Expenses</b>	<b>\$ 36,835,087</b>	<b>100.00%</b>	<b>\$ 39,829,601</b>	<b>100.00%</b>

*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, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<b><u>Comparative Schedule of Capital Assets</u></b>		
	Governmental Activities	
	2014	2015
Land	\$ 241,224	\$ 241,224
Sites and Improvements	1,053,965	1,053,965
Buildings and Improvements	118,088,566	141,101,595
Furniture and Equipment	579,489	544,878
Work-in-Progress	23,136,274	3,323,940
Subtotals	143,099,518	146,265,602
Less: Accumulated Depreciation	(37,595,258)	(41,334,092)
Capital Assets, net	<u>\$ 105,504,260</u>	<u>\$ 104,931,510</u>

Capital assets, net of depreciation and loss from disposal of assets, decreased \$567,768 due to the current year addition of \$3,265,728 of new capital assets and improvements, and the current year recognition of \$3,833,496 of depreciation expense.

<b><u>Comparative Schedule of Long-Term Liabilities</u></b>		
	Governmental Activities	
	2014	2015
Compensated Absences	\$ 81,638	\$ 109,095
General Obligation Bonds	102,870,000	98,870,000
Bond Premium	3,758,564	3,654,595
Capital Lease	101,452	51,552
Net Pension Liability - CalSTRS*	26,405,367	21,600,157
Net Pension Liability - CalPERS*	4,958,978	3,644,414
Totals*	<u>\$ 138,175,999</u>	<u>\$ 127,929,813</u>

\* The amounts presented for fiscal year 2013-14 have been adjusted to reflect the restatement discussed in Note 19.

Total long-term liabilities increased \$21,118,159 due primarily to the implementation of GASB Statement No. 68, which required the District to calculate and include in its financial statements, its proportionate share of the net pension liabilities related to CalSTRS and CalPERS beginning in the 2014-15 fiscal year.

**LOS GATOS UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(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 77% 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**

<b><u>Comparative Schedule of Fund Balances</u></b>			
	Fund Balances June 30, 2014	Fund Balances June 30, 2015	Increase (Decrease)
General	\$ 8,656,038	\$ 8,794,007	\$ 137,969
Bond Interest & Redemption	6,949,611	7,374,995	425,384
Measure E - Building	915,989	0	(915,989)
Capital Projects - Special Reserve	11,637,692	9,569,475	(2,068,217)
Cafeteria	34,714	21,317	(13,397)
Capital Facilities	1,428,342	1,751,995	323,653
Totals	<u>\$ 29,622,386</u>	<u>\$ 27,511,789</u>	<u>\$ (2,110,597)</u>

The fund balance of the General Fund increased \$137,969, while the combined fund balances of the other District governmental funds decreased \$2,248,566, due primarily to the bond related expenditures in the Measure E - Building Fund and construction related expenditures in the 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.

**LOS GATOS UNION SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(PREPARED BY DISTRICT MANAGEMENT)

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**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 2015-16 will be the third year of the projected eight year phase-in period for the new Local Control Funding Formula (LCFF). Although more information regarding the new funding and accountability standards was released during the past year, it is very likely that there will be additional modifications in the future. As a result, school district budgets should continue to be managed with a great degree of conservatism over the next few years. 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.

**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, 2015**

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Deposits and Investments (Note 2)	\$ 28,287,599
Receivables (Note 4)	1,202,698
OPEB Asset (Note 10, 11)	471,544
Prepaid Expenses (Note 11)	24,467
Capital Assets, Not Depreciated (Note 6)	3,565,164
Capital Assets, Net of Accumulated Depreciation (Note 6)	101,366,346
Total Assets	134,917,818
<b><u>Deferred Outflows of Resources</u></b>	
Pension Deferrals - CalSTRS (Note 11)	2,390,934
Pension Deferrals - CalPERS (Note 11)	436,551
Bond Refunding (Note 11)	2,536,532
Total Deferred Outflows of Resources	5,364,017
<b><u>Liabilities</u></b>	
Accounts Payable and Other Current Liabilities	1,699,111
Accrued Interest Payable	1,521,101
Unearned Revenue (Note 11)	303,864
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 11)	109,095
General Obligation Bonds (Note 7)	4,955,000
Bond Premium (Note 11)	272,384
Capital Lease (Note 9)	51,552
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 7)	93,915,000
Bond Premium (Note 11)	3,382,211
Net Pension Liability - CalSTRS (Note 11)	21,600,157
Net Pension Liability - CalPERS (Note 11)	3,644,414
Total Liabilities	131,453,889
<b><u>Deferred Inflows of Resources</u></b>	
Pension Deferrals - CalSTRS (Note 11)	5,318,850
Pension Deferrals - CalPERS (Note 11)	1,252,262
Total Deferred Inflows of Resources	6,571,112
<b><u>Net Position</u></b>	
Net Investment in Capital Assets	4,891,895
Restricted:	
For Capital Projects	1,766,084
For Debt Service	5,853,894
For Educational Programs	1,059,476
For Other Purposes	48,584
Unrestricted (Deficit)	(11,363,099)
Total Net Position	\$ 2,256,834

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, 2015**

<b>Functions</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>
<b><u>Governmental Activities</u></b>					
Instruction	\$ 23,897,812		\$ 2,493,246		\$ (21,404,566)
Instruction-Related Services:					
Supervision of Instruction	570,258		73,382		(496,876)
Instructional Library and Technology	287,260		873		(286,387)
School Site Administration	2,256,004		56,581		(2,199,423)
Pupil Services:					
Home-to-School Transportation	13,563		3,577		(9,986)
Food Services	660,312	\$ 470,841	69,816		(119,655)
Other Pupil Services	1,558,309		301,958		(1,256,351)
General Administration:					
Data Processing Services	737,680		10,628		(727,052)
Other General Administration	2,018,658		14,317		(2,004,341)
Plant Services	3,819,275		9,884		(3,809,391)
Interest on Long-Term Debt	3,745,027				(3,745,027)
Other Outgo	265,443		1,787,022		1,521,579
Total Governmental Activities	<u>\$ 39,829,601</u>	<u>\$ 470,841</u>	<u>\$ 4,821,284</u>	<u>\$ 0</u>	<u>(34,537,476)</u>
<b><u>General Revenues</u></b>					
Taxes Levied for General Purposes					21,727,420
Taxes Levied for Debt Service					8,572,246
Taxes Levied for Specific Purposes					4,577,347
Federal and State Aid - Unrestricted					1,382,223
Interest and Investment Earnings					107,332
Transfers from Other Agencies					54,156
Miscellaneous					504,162
Total General Revenues					<u>36,924,886</u>
Change in Net Position					2,387,410
Net Position (Deficit) - July 1, 2014 (As Restated - Note 19)					<u>(130,576)</u>
Net Position - June 30, 2015					<u>\$ 2,256,834</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**LOS GATOS UNION SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Deposits and Investments (Note 2)	\$ 8,423,053	\$ 7,369,461	\$ 10,787,109	\$ 1,707,976	\$ 28,287,599
Receivables (Note 4)	990,166	5,534	15,131	191,867	1,202,698
Prepaid Expenditures (Note 11)	24,467				24,467
Total Assets	<u>\$ 9,437,686</u>	<u>\$ 7,374,995</u>	<u>\$ 10,802,240</u>	<u>\$ 1,899,843</u>	<u>\$ 29,514,764</u>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Accounts Payable	\$ 373,636		\$ 1,232,765	\$ 92,710	\$ 1,699,111
Unearned Revenue (Note 11)	270,043			33,821	303,864
Total Liabilities	<u>643,679</u>		<u>1,232,765</u>	<u>126,531</u>	<u>2,002,975</u>
Fund Balances: (Note 13)					
Nonspendable	27,267				27,267
Restricted	1,059,476	\$ 7,374,995	14,089	1,773,312	10,221,872
Assigned	477,944		9,555,386		10,033,330
Unassigned	7,229,320				7,229,320
Total Fund Balances	<u>8,794,007</u>	<u>7,374,995</u>	<u>9,569,475</u>	<u>1,773,312</u>	<u>27,511,789</u>
Total Liabilities and Fund Balances	<u>\$ 9,437,686</u>	<u>\$ 7,374,995</u>	<u>\$ 10,802,240</u>	<u>\$ 1,899,843</u>	<u>\$ 29,514,764</u>

**LOS GATOS UNION SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

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**Total Fund Balances - Governmental Funds** \$ 27,511,789

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: 471,544

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	\$ 146,265,602	
Accumulated Depreciation	(41,334,092)	
Net		104,931,510

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. (3,743,627)

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 a deferred outflow of resources, was: 2,536,532

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: (1,521,101)

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	109,095	
General Obligation Bonds	98,870,000	
Bond Premium	3,654,595	
Capital Lease	51,552	
Net Pension Liability - CalSTRS	21,600,157	
Net Pension Liability - CalPERS	3,644,414	
		(127,929,813)

**Total Net Position - Governmental Activities** \$ 2,256,834

**LOS GATOS UNION SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>					
LCFF Sources:					
State Apportionment / Transfers	\$ 645,734				\$ 645,734
Local Taxes	21,720,819				21,720,819
Total LCFF Sources	22,366,553				22,366,553
Federal Revenue	609,742			\$ 57,647	667,389
State Revenue	1,908,406	\$ 36,167		2,282	1,946,855
Local Revenue	7,628,033	8,734,598	\$ 60,956	812,627	17,236,214
Total Revenues	32,512,734	8,770,765	60,956	872,556	42,217,011
<b><u>Expenditures</u></b>					
Current:					
Instruction	21,747,563				21,747,563
Supervision of Instruction	517,754				517,754
Instructional Library and Technology	257,648				257,648
School Site Administration	2,058,093				2,058,093
Home-To-School Transportation	12,111				12,111
Food Services				594,246	594,246
Other Pupil Services	1,421,837				1,421,837
Data Processing Services	668,755				668,755
Other General Administration	1,816,529				1,816,529
Plant Services	3,255,055				3,255,055
Facilities Acquisition and Construction	29,581		2,489,173	924,043	3,442,797
Other Outgo	136,519				136,519
Debt Service:					
Principal Retirement	49,900	21,210,000			21,259,900
Interest and Issuance Costs	3,420	4,702,553			4,705,973
Total Expenditures	31,974,765	25,912,553	2,489,173	1,518,289	61,894,780
Excess of Revenues Over (Under) Expenditures	537,969	(17,141,788)	(2,428,217)	(645,733)	(19,677,769)
<b><u>Other Financing Sources (Uses)</u></b>					
Operating Transfers In			360,000	40,000	400,000
Operating Transfers Out	(400,000)				(400,000)
Other Sources		17,567,172			17,567,172
Total Other Financing Sources (Uses)	(400,000)	17,567,172	360,000	40,000	17,567,172
Net Change in Fund Balances	137,969	425,384	(2,068,217)	(605,733)	(2,110,597)
Fund Balances - July 1, 2014	8,656,038	6,949,611	11,637,692	2,379,045	29,622,386
Fund Balances - June 30, 2015	\$ 8,794,007	\$ 7,374,995	\$ 9,569,475	\$ 1,773,312	\$ 27,511,789

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**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, 2015**

**Net Change in Fund Balances - Governmental Funds** \$ (2,110,597)

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	\$ 3,265,728	
Depreciation Expense	<u>(3,833,496)</u>	(567,768)

Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss is: (4,982)

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: (17,210,000)

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: 638,928

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: (27,457)

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: (70,449)

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: (357,172)

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: 395,850

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	21,210,000	
Bond Premium	461,141	
Capital Lease	<u>49,900</u>	21,721,041

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: (19,984)

**Change in Net Position of Governmental Activities** \$ 2,387,410

**LOS GATOS UNION SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2015**

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	Agency Funds	Total Fiduciary Funds
<b><u>Assets</u></b>		
Deposits and Investments (Note 2)	\$ 3,242	\$ 3,242
<b><u>Liabilities</u></b>		
Due to Student Groups	3,242	3,242
<b><u>Net Position</u></b>		
Total Net Position	\$ 0	\$ 0

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**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).

The financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, the organization should be included as a component unit.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under GASB Statement No. 14 (GASB 14) as amended by GASB Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*, and has determined that there are no organizations, with financial activities that benefit the District, which should be included within its financial reporting entity under these criteria.

The District has also reviewed criteria to determine whether other organizations, for which the District is not financially accountable, should be reported within its financial reporting entity, based on the nature and significance of its relationship with the District, under GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, and has determined that there are no organizations, for which the District is not financially accountable, which should be reported within its financial reporting entity.

**B. Implementation of New Accounting Pronouncements**

In June 2012, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, with required implementation for the District during the year ended June 30, 2015. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Implementation of New Accounting Pronouncements (Concluded)**

This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regards to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

In November 2013, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date*, with required implementation for the District during the year ended June 30, 2015. The objective of this statement is to address an issue regarding application of the transition provisions of GASB 68. This issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB 68.

The effect on beginning net position that resulted from implementing GASB 68 and GASB 71 is presented in Note 19.

**C. 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. 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded)

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.

D. 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. 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Revenues - Exchange and Non-exchange Transactions (Concluded)

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.

E. 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. 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

*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 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.

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

*Measure E - Building Fund* is used to account for proceeds from the sale general obligation bonds, authorized by the voters of the District on June 8, 2010, and the subsequent expenditure of those funds on capital projects listed on the Measure E ballot measure.

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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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 Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board 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 57.

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 (See Note 3).

G. 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.

H. 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.

I. 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). 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

1. Deposits and Investments (Concluded)

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 10. 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:

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

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes 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 expense or expenditure until then. The District has two items that meet this criterion for reporting in this category. The first item represents employer contributions and state on-behalf payments made to the pension plans subsequent to the measurement date of the net pension liability and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. The second item represents deferred amount on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position includes 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 revenue until then. The District has one item that meets this criterion for reporting in this category. This item is the net difference between projected and actual earnings on pension plan investments and will be recognized in pension expense over a closed period of five years.

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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Pensions (Concluded)

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.

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. 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Local Control Funding Formula (LCFF)/Property Tax (Concluded)

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.

11. 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 (governing board). 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, 2015**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

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

11. 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.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, 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	\$ 3,242
Cash in Revolving Fund	2,800	
Cash with Fiscal Agent	34,662	
County Pool Investments	<u>28,237,637</u>	
Totals	<u>\$ 28,287,599</u>	<u>\$ 3,242</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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**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:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**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:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 28,237,637	\$ 28,251,974	\$ 12,813,689	\$ 15,423,948

**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	\$ 28,237,637	\$ 28,251,974			\$ 28,237,637

**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, 2015, the District does not have a bank balance that is exposed to custodial credit risk.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)**

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, 2015, 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.

**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

There were no excess of expenditures over appropriations in the General Fund as of June 30, 2015.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2015 consist of the following:

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 338,383			\$ 6,897	\$ 345,280
State Government	323,412			266	323,678
Local Governments	63,578				63,578
Interest	13,213	\$ 5,534	\$ 15,131	2,286	36,164
Miscellaneous	251,580			182,418	433,998
Totals	<u>\$ 990,166</u>	<u>\$ 5,534</u>	<u>\$ 15,131</u>	<u>\$ 191,867</u>	<u>\$ 1,202,698</u>

**NOTE 5 - 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)**

**Interfund Transfers**

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

Interfund transfers for fiscal year 2014-15 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 400,000
Capital Projects - Special Reserve	\$ 360,000	
Cafeteria	<u>40,000</u>	<u>                    </u>
Totals	<u>\$ 400,000</u>	<u>\$ 400,000</u>

Transfer of \$40,000 from General Fund to Cafeteria Fund to supplement the child nutrition program.

Transfer of \$360,000 from General Fund to Capital Projects - Special Reserve Fund to provide funding for future board approved capital projects.

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2015, is shown below:

	<u>Balances</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2015</u>
Land	\$ 241,224			\$ 241,224
Sites and Improvements	1,053,965			1,053,965
Buildings and Improvements	118,088,566	\$ 23,013,029		141,101,595
Furniture and Equipment	579,489	65,033	\$ 99,644	544,878
Work-in-Progress	<u>23,136,274</u>	<u>3,200,695</u>	<u>23,013,029</u>	<u>3,323,940</u>
Totals at Historical Cost	<u>143,099,518</u>	<u>26,278,757</u>	<u>23,112,673</u>	<u>146,265,602</u>
Less Accumulated Depreciation for:				
Sites and Improvements	492,364	39,979		532,343
Buildings and Improvements	36,624,628	3,765,661		40,390,289
Furniture and Equipment	<u>478,266</u>	<u>27,856</u>	<u>94,662</u>	<u>411,460</u>
Total Accumulated Depreciation	<u>37,595,258</u>	<u>3,833,496</u>	<u>94,662</u>	<u>41,334,092</u>
Governmental Activities				
Capital Assets, net	<u>\$ 105,504,260</u>	<u>\$ 22,445,261</u>	<u>\$ 23,018,011</u>	<u>\$ 104,931,510</u>

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)**

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 2,557,632
Supervision of Instruction	61,031
Instructional Library, Media, and Technology	30,744
School Site Administration	241,446
Food Services	70,669
All Other Pupil Services	168,228
Data Processing Services	78,949
All Other General Administration	216,044
Plant Services	<u>408,753</u>
 Total	 <u>\$ 3,833,496</u>

**NOTE 7 - GENERAL OBLIGATION BONDS**

On October 21, 2014, the District issued \$17,210,000 of general obligation refunding bonds to for purposes of advance refunding the District's outstanding Election of 2001 (Series C) General Obligation Bonds of \$16,650,000, 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 8). The reacquisition price exceeded the net carrying amount of the old debt by \$560,000. 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 an economic gain of \$2,838,001.

The outstanding general obligation debt of the District as of June 30, 2015 is as follows:

Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2014	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2015
12/18/03	3.00-5.00	8/1/30	\$ 25,000,000	\$ 2,300,000		\$ 450,000	\$ 1,850,000
11/29/05	3.00-5.13	8/1/32	18,000,000	17,425,000		16,975,000	450,000
5/10/07	4.00	8/1/32	13,000,000	11,615,000		165,000	11,450,000
10/19/11	2.00-4.75	8/1/26	28,190,000	25,375,000		1,405,000	23,970,000
5/25/11	2.00-4.75	8/1/35	11,360,000	6,900,000		300,000	6,600,000
5/25/11	3.25-5.10	8/1/25	4,340,000	4,340,000			4,340,000
12/20/11	3.20	8/1/30	22,220,000	21,435,000		200,000	21,235,000
11/27/12	2.00-4.00	8/1/37	15,200,000	13,480,000		1,715,000	11,765,000
10/21/14	2.00-5.00	8/1/32	<u>17,210,000</u>	<u>0</u>	<u>\$17,210,000</u>		<u>17,210,000</u>
Totals			<u>\$154,520,000</u>	<u>\$102,870,000</u>	<u>\$17,210,000</u>	<u>\$ 21,210,000</u>	<u>\$ 98,870,000</u>

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)**

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2015, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 4,955,000	\$ 3,601,850	\$ 8,556,850
2017	4,970,000	3,419,188	8,389,188
2018	4,005,000	3,250,453	7,255,453
2019	4,150,000	3,088,140	7,238,140
2020	4,265,000	2,923,730	7,188,730
2021-2025	23,695,000	11,966,911	35,661,911
2026-2030	28,030,000	7,091,405	35,121,405
2031-2035	21,835,000	2,113,768	23,948,768
2036-2040	2,965,000	136,099	3,101,099
Totals	<u>\$ 98,870,000</u>	<u>\$ 37,591,544</u>	<u>\$ 136,461,544</u>

**NOTE 8 - 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, 2015 considered extinguished are as follows:

<u>Bond Series</u>	<u>Maturities Refunded</u>	<u>Principal Refunded</u>
Election of 2001, Series C	2016-2032	\$ 16,650,000

**NOTE 9 - CAPITAL LEASE**

The District leases computer equipment valued at \$203,073 under a lease agreement that provides for title to pass upon expiration of the lease period. Future minimum lease payment under this agreement is as follows:

Year Ended <u>June 30</u>	<u>Lease Payment</u>
2016	\$ 53,259
Less amount representing interest	<u>(1,707)</u>
Present value of net minimum lease payments	<u>\$ 51,552</u>

The District will receive no sublease rental revenues for the leased computer equipment.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 10 - 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:

	<b>Management</b>	<b>Certificated</b>	<b>Classified</b>
<b>Benefits provided</b>	Medical, Dental, Vision, and Life Insurance	Medical, Dental, Vision, and Life Insurance	Medical, Dental, Vision, and Life Insurance
<b>Duration of benefits</b>	To age 65	To age 65	To age 65
<b>Required service</b>	10 years *	10 years *	10 years *
<b>Minimum age</b>	55	55	55
<b>Dependent coverage</b>	Yes	Yes	Yes
<b>District contribution</b>	100%	100%	100%
<b>District cap</b>	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.

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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

*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, 2015, 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 (\$471,544) for the year ended June 30, 2015:

Annual required contribution (ARC)	\$ 562,355
Interest on net OPEB obligation (asset)	(37,940)
Adjustment to ARC	<u>34,269</u>
Annual OPEB cost (expense)	558,684
Contributions for the fiscal year	<u>(488,235)</u>
Decrease in net OPEB asset	70,449
Net OPEB asset - June 30, 2014	<u>(541,993)</u>
Net OPEB asset - June 30, 2015	<u>\$ (471,544)</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, 2015	\$ 558,684	87.4%	\$ (471,544)
June 30, 2014	648,335	69.9%	(541,993)
June 30, 2013	637,031	86.0%	(736,699)

*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. 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)**

*Actuarial Methods and Assumptions (Concluded):*

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 medical trend rate are 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 11 - 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).

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

*Plan Descriptions, Benefits Provided and Employees Covered*

The California State Teachers Retirement System (CalSTRS) administers a defined benefit plan, the State Teachers' Retirement Plan, which provides pension benefits to California full-time and part-time public school teachers and certain other employees of the public school system. The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. The Teachers' Retirement Board (board) has exclusive control over the administration of the retirement system plans and the investment of funds. 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. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

**Defined Benefit Program:**

The Defined Benefit Program has two benefit formulas: (1) CalSTRS 2% at 60 with members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS and (2) CalSTRS 2% at 62 with members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS. Members are eligible for normal retirement at age 60 (CalSTRS 2% at 60) or age 62 (CalSTRS 2% at 62), with a minimum of five years of credited service. After earning five years of credited service, members become fully vested in retirement benefits.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Plan Descriptions, Benefits Provided and Employees Covered (Continued)

Defined Benefit Program (Concluded):

There is a postretirement annual benefit adjustment increase of 2.0 percent per year on a simple basis and this benefit is vested for members who pay the higher contribution rates enacted in AB 1469, or retired in 2014. 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. The Teachers' Retirement Law (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.

Purchasing power protection is provided to members of the Defined Benefit Program through the Purchasing Power Protection Program. Quarterly annual distributions to retired and disabled members and beneficiaries restore purchasing power up to 85% of the initial monthly allowance. Funding for this program is from School Lands Revenue and the Supplemental Benefit Maintenance Account.

Defined Benefit Supplement Program:

The Defined Benefit Supplement Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension program that operates within the STRP. All members of the Defined Benefit Program who make contributions to CalSTRS on creditable compensation earned on and after January 1, 2001, have an account under the Defined Benefit Supplement Program and are eligible to receive a Defined Benefit Supplement benefit based on the amount of funds contributed to the Defined Benefit Supplement account. Membership in the Defined Benefit Supplement Program is mandatory. Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 3% for the fiscal year ended June 30, 2014. The board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet the criteria set out in board policy.

Cash Balance Benefit Program:

The Cash Balance Benefit Program, established under Chapter 592, Statutes of 1995 (AB 1298), and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension program. The Cash Balance Benefit Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Participation in the Cash Balance Benefit Program is optional; a school district or county office of education may elect to offer the Cash Balance Benefit Program. The District has not elected to offer this program.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Plan Descriptions, Benefits Provided and Employees Covered (Concluded)

STRP Replacement Benefits Program:

The STRP Replacement Benefits Program is an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three STRP programs and is established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The limit for individual CalSTRS members varies based on the age at which they retire. In 2014, the federal dollar limit for retirees is \$210,000, without considering the member's retirement age. Under CalSTRS 2% at 62, members will not receive any benefits in excess of the IRC Section 415(b) limit.

Contributions

Defined Benefit Program:

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law (Education Code Section 22000 et seq.) Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. 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 8.0% of applicable member earnings. Under CalSTRS 2% at 62, members contribute 50% of the normal cost of their retirement plan, which resulted in a contribution rate of 8.0% of applicable member earnings. In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2% annual benefit adjustment increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2% annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers the portion of the 2% annual benefit adjustment.

Employers: The required contribution rate was 8.25% of applicable member earnings. In accordance with AB 1469, employer contributions will increase from 8.25% to a total of 19.1% of applicable member earnings phased in over the next seven years, beginning in fiscal year 2014-15. The contribution rate for fiscal year 2014-15 was 8.88%.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Contributions (Concluded)

Defined Benefit Program (Concluded):

State: The required contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. In addition, beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments beginning in October 1, 2013, at an additional contribution rate of 1.024%.

The amount of District contributions to CalSTRS for the fiscal year ended June 30, 2015, was 8.88% of applicable member earnings in the fiscal year. The District's contribution to CalSTRS for the fiscal year ended June 30, 2015 was \$1,503,642.

Defined Benefit Supplement Program:

Beginning July 1, 2002, for creditable service in excess of one year credit within one fiscal year, member contributions of 2% and employer contributions of 8% are credited to the members nominal Defined Benefit Supplement Program account (up to the compensation cap). Contributions for compensation as a result of retirement incentives or limited-term enhancements are credited to the members' Defined Benefit Supplement Program accounts for CalSTRS 2% at 60 members.

Cash Balance Benefit Program:

The District does not participate in this program.

STRP Replacement Benefits Program:

The program is funded as needed. Contributions that would otherwise be credited to the Defined Benefit Program each month are instead credited to the Replacement Benefits Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes.

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, 2013, and rolling forward the total pension liability to June 30, 2014.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Continued)

The financial reporting actuarial valuation as of June 30, 2013, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return <sup>1</sup>	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

<sup>1</sup> 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.

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. Refer to CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis available on CalSTRS website 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:

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Concluded)

<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 per AB 1469. 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.

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 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:

	<u>Discount Rate 1% Decrease 6.60%</u>	<u>Discount Rate Current Rate 7.60%</u>	<u>Discount Rate 1% Increase 8.60%</u>
District's proportionate share of the net pension liability	\$ 33,668,996	\$ 21,600,157	\$ 11,536,939

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the comprehensive annual financial report issued by CalSTRS available on their website. The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. CalSTRS maintains its accounting records using the accrual basis of accounting. It recognizes member contributions in the period in which the contributions are earned. CalSTRS recognizes employer and state contributions when earned and the employer or state has made a formal commitment to provide the contributions.

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

The State of California is considered to be a nonemployer contributing entity of the STRP. The state's proportionate share of the collective net pension liability used in the proportionate share calculation was 37.65% for the year ended June 30, 2014. The District's proportionate share of the STRP net pension liability and deferred items was calculated by multiplying the District's proportionate share of contributions for employers and nonemployer contributing entity by the aggregate amounts reported by CalSTRS as of June 30, 2014. The District's proportionate share of the net pension liability as of June 30, 2013 and June 30, 2014 was as follows:

	CalSTRS
Proportion - June 30, 2013	0.0370%
Proportion - June 30, 2014	0.0370%
Change - Increase (Decrease)	0.0000%

For the fiscal year ended June 30, 2015, the District recognized pension expense of \$1,864,643. At June 30, 2015, 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 measurement date	\$ 1,503,642	
District's Proportionate share of State On-Behalf payments subsequent to measurement date	887,292	
Net differences between projected and actual earnings on plan investments *		\$ 5,318,850
Totals	\$ 2,390,934	\$ 5,318,850

\* Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

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

\$1,503,642 reported as deferred outflows of resources were related to District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. The District also recognized revenue in the amount of \$887,292 for their proportionate support provided by the state as on-behalf payments subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. 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		
2016	\$	1,329,713
2017		1,329,712
2018		1,329,713
2019		1,329,712

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

The District contributes to the Employers Schools Pool Plan (the Plan) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer 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 disability 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, 2015**

NOTE 11 - 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 shall pay the higher of fifty percent of normal costs or 6.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2015 was 11.771% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2015 was \$436,551.

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, 2015, the District reported a liability of \$3,644,414 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2013 and June 30, 2014 was as follows:

	CalPERS
Proportion - June 30, 2013	0.0321%
Proportion - June 30, 2014	0.0321%
Change - Increase (Decrease)	0.0000%

For the fiscal year ended June 30, 2015, the District recognized pension expense of \$323,914.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 11 - 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)

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 436,551	
Net differences between projected and actual earnings on pension plan investments		<u>\$ 1,252,262</u>
Totals	<u>\$ 436,551</u>	<u>\$ 1,252,262</u>

\$436,551 reported as 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, 2016. 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>	
2016	\$ 313,065
2017	313,066
2018	313,065
2019	313,066

Actuarial Assumptions

The total pension liability in the June 30, 2013 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, 2015**

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions (Concluded)

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases (1)	
Investment Rate of Return (2)	7.50%
Post Retirement Benefit Increase (3)	

(1) Varies by entry age and service

(2) Net of pension plan investment and administrative expenses, includes inflation

(3) 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, 2013 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 Pool. The results of the crossover testing for the 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 Pool, this difference was deemed immaterial.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 11 - 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	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(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, 2015**

**NOTE 11 - 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 of the Plan as of the measurement date, calculated using the discount rate of 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	Discount Rate -1% 6.50%	Current Discount Rate 7.50%	Discount Rate +1% 8.50%
District's proportionate share of the net pension liability	\$ 6,393,136	\$ 3,644,414	\$ 1,347,582

**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 employees were required to contribute 6.2% of an employee's gross earnings.

**NOTE 12 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2015, is shown below:

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015	Due within One Year
Compensated Absences	\$ 81,638	\$ 109,095	\$ 81,638	\$ 109,095	\$ 109,095
General Obligation Bonds	102,870,000	17,210,000	21,210,000	98,870,000	4,955,000
Bond Premium	3,758,564	357,172	461,141	3,654,595	272,384
Capital Lease	101,452		49,900	51,552	51,552
Net Pension Liability - CalPERS*	26,405,367		4,805,210	21,600,157	
Net Pension Liability - CalSTRS*	4,958,978		1,314,564	3,644,414	
Totals*	\$ 138,175,999	\$ 17,676,267	\$ 27,922,453	\$ 127,929,813	\$ 5,388,031

\* Amounts presented for fiscal year 2013-14 have been restated - see Note 19.

Compensated absences and capital lease 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, 2015**

**NOTE 13 - FUND BALANCES**

The fund balances as of June 30, 2015 are as follows:

	General <u>Fund</u>	Bond Interest & Redemption <u>Fund</u>	Capital Project - Special Reserve <u>Fund</u>	Non-Major Governmental <u>Funds</u>	<u>Totals</u>
Nonspendable	\$ 27,267				\$ 27,267
Restricted	1,059,476	\$ 7,374,995	\$ 14,089	\$ 1,773,312	10,221,872
Assigned	477,944		9,555,386		10,033,330
Unassigned:					
Economic Uncertainties	4,831,035				4,831,035
Other	2,398,285				2,398,285
Totals	<u>\$ 8,794,007</u>	<u>\$ 7,374,995</u>	<u>\$ 9,569,475</u>	<u>\$ 1,773,312</u>	<u>\$ 27,511,789</u>

**NOTE 14 - 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 \$887,292 (5.678848% of creditable compensation subject to CalSTRS for the 2012-13 fiscal year). These contributions are recorded in the General Fund as revenue and expenditures. The District is not legally responsible for these contributions.

**NOTE 15 - 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, 2015**

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**NOTE 16 - 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 2014-15, 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 17 - ECONOMIC DEPENDENCY**

During the year, the District received \$2,748,113 of parcel tax revenue that is subject to voter approval. The tax is used to support various programs of the District and has been approved through June 30, 2022.

**NOTE 18 - 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 19 - RESTATEMENT OF NET POSITION**

During fiscal year 2014-15, the District implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68) and Statement No. 71 (GASB 71), as discussed in Note 1B. As a result, the beginning net position of the District has been restated to reflect the District's proportionate share of the net pension liability related to its participation in the CalSTRS and CalPERS pension plans, and the deferral of prior year contributions made to CalSTRS and CalPERS, which were previously reported as components of pension expense in the prior fiscal year. (In accordance with GASB 71, the beginning net position restatement does not reflect any other adjustments related to deferred inflows or outflows of resources related to pensions, which result from differences between expected and actual, projected and actual earnings on investments, or changes in assumptions, as the information required to determine such amounts was not available during the first year implementation of GASB 68.)

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**NOTE 19 - RESTATEMENT OF NET POSITION (CONCLUDED)**

The effect of the restatement on the current year financial statements is as follows:

	<u>Statement of Activities</u>
Net Position - July 1, 2014 (as originally stated)	\$ <u>29,496,550</u>
Understatement of Net Pension Liability - CalSTRS	(26,405,367)
Understatement of Net Pension Liability - CalPERS	(4,958,978)
Understatement of Deferred Outflows of Resources - CalSTRS	1,351,003
Understatement of Deferred Outflows of Resources - CalPERS	<u>386,216</u>
Net Restatement	<u>(29,627,126)</u>
Net Position (Deficit) - July 1, 2014 (as restated)	<u>\$ (130,576)</u>

**NOTE 20 - SUBSEQUENT EVENT**

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, 2015, 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.

**General Obligation Bonds**

On November 16, 2015, the District authorized the issuance and sale up to \$12,500,000 of general obligation refunding bonds for purposes of advance refunding the District's outstanding Election of 2001, General Obligation Bonds, Series D, and to pay costs of issuance related to the refunding bonds. 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.

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, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 560,794	\$ 645,734	\$ 645,734	
Local Sources	20,984,853	21,720,819	21,720,819	
Total LCFF Sources	21,545,647	22,366,553	22,366,553	
Federal Revenue	573,112	609,742	609,742	
Other State Revenue	730,778	1,908,406	1,908,406	
Other Local Revenue	6,268,239	7,628,033	7,628,033	
Total Revenues	29,117,776	32,512,734	32,512,734	
<b><u>Expenditures</u></b>				
Certificated Salaries	15,847,555	16,620,222	16,620,222	
Classified Salaries	3,744,411	4,005,738	4,005,738	
Employee Benefits	5,302,260	6,193,210	6,193,210	
Books and Supplies	1,215,989	1,942,374	1,942,374	
Services and Other				
Operating Expenditures	2,956,443	2,958,349	2,958,349	
Capital Outlay	65,000	65,033	65,033	
Debt Service:				
Principal Retirement	51,000	49,900	49,900	
Interest and Fiscal Charges	3,000	3,420	3,420	
Other Expenditures	122,220	136,519	136,519	
Total Expenditures	29,307,878	31,974,765	31,974,765	
Excess of Revenues Over (Under) Expenditures	(190,102)	537,969	537,969	
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers In	9,000			
Operating Transfers Out	(15,000)	(400,000)	(400,000)	
Total Other Financing Sources (Uses)	(6,000)	(400,000)	(400,000)	
Net Change in Fund Balances	(196,102)	137,969	137,969	\$ 0
Fund Balances - July 1, 2014	8,656,038	8,656,038	8,656,038	
Fund Balances - June 30, 2015	\$ 8,459,936	\$ 8,794,007	\$ 8,794,007	

**LOS GATOS UNION SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>Cafeteria</u>	<u>Capital Facilities</u>	<u>Measure E - Building</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Assets</u></b>				
Deposits and Investments	\$ 42,497	\$ 1,665,479		\$ 1,707,976
Receivables	48,852	143,015		191,867
Total Assets	<u>\$ 91,349</u>	<u>\$ 1,808,494</u>	<u>\$ 0</u>	<u>\$ 1,899,843</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 36,211	\$ 56,499		\$ 92,710
Unearned Revenue	33,821			33,821
Total Liabilities	70,032	56,499		126,531
Fund Balances:				
Restricted	21,317	1,751,995		1,773,312
Total Liabilities and Fund Balances	<u>\$ 91,349</u>	<u>\$ 1,808,494</u>	<u>\$ 0</u>	<u>\$ 1,899,843</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, 2015**

	<u>Cafeteria</u>	<u>Capital Facilities</u>	<u>Measure E - Building</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Revenues</u></b>				
Federal Revenue	\$ 57,647			\$ 57,647
State Revenue	2,282			2,282
Local Revenue	480,920	\$ 323,653	\$ 8,054	812,627
Total Revenues	<u>540,849</u>	<u>323,653</u>	<u>8,054</u>	<u>872,556</u>
<b><u>Expenditures</u></b>				
Current:				
Food Services	594,246			594,246
Facilities Acquisition and Construction			924,043	924,043
Total Expenditures	<u>594,246</u>	<u>0</u>	<u>924,043</u>	<u>1,518,289</u>
Excess of Revenues Over (Under) Expenditures	(53,397)	323,653	(915,989)	(645,733)
<b><u>Other Financing Sources</u></b>				
Operating Transfers In	40,000			40,000
Net Change in Fund Balances	(13,397)	323,653	(915,989)	(605,733)
Fund Balances - July 1, 2014	<u>34,714</u>	<u>1,428,342</u>	<u>915,989</u>	<u>2,379,045</u>
Fund Balances - June 30, 2015	<u>\$ 21,317</u>	<u>\$ 1,751,995</u>	<u>\$ 0</u>	<u>\$ 1,773,312</u>

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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<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, 2015**

<b>CalSTRS</b>	<b>6/30/14 *</b>
District's proportion of the collective net pension liability	0.0370%
District's proportionate share of the collective net pension liability	\$ 21,600,157
Portion of state's total proportionate share of the collective net pension liability associated with the District	511,373
Total collective net pension liability attributed to District	\$ 22,111,530
District's covered-employee payroll	\$ 16,463,491
District's proportionate share of the collective net pension liability as a percentage of covered-employee payroll	131.20%
Plan fiduciary net position as a percentage of the total pension liability	76.52%

\* The information presented above is determined as of the measurement date of the collective net pension liability. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, 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, 2015

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<u>CalPERS</u>	<u>6/30/14 *</u>
District's proportion of the collective net pension liability	0.0321%
District's proportionate share of the collective net pension liability	\$ 3,644,414
District's covered-employee payroll	\$ 3,369,962
District's proportionate share of the collective net pension liability as a percentage of covered-employee payroll	108.14%
Plan fiduciary net position as a percentage of the total pension liability	83.38%

\* The information presented above is determined as of the measurement date of the collective net pension liability. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, 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**

**JUNE 30, 2015**

<u>CalSTRS</u>	<u>6/30/14 *</u>
Statutorily required District contributions (actuarially determined)	\$ 1,503,642
Contributions recognized by pension plan in relation to the statutorily required District contributions	<u>1,503,642</u>
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	\$ 16,932,905
Contributions recognized by pension plan in relation to statutorily required District contribution as a percentage of covered-employee payroll	8.88%

**Methods and Assumptions Used to Determine Contribution Rates**

The following actuarial methods and assumptions were used to determine the actuarially determined contribution for the STRP presented above:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll basis
Amortization Period	Open
Remaining Amortization Period	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Interest on Accounts	4.50%
Wage Growth	3.75%
Consumer Price Inflation	3.00%
Post-retirement Benefit Increases	2.00% simple

**Changes in Benefit Terms**

The California Public Employees' Pension Reform Act of 2013 (PEPRA) resulted in a new benefit formula. CalSTRS 2% at 62, for members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. Significant changes compared to CalSTRS 2% at 60 benefit formula include raising the normal retirement age from 60 to 62 and placing a limit on creditable compensation to 120 percent of the Social Security wage base, annually adjusted for changes to the Consumer Price Index.

**Changes of Assumptions**

There were no changes in major assumptions from the June 30, 2012, actuarial valuation.

\* This information is determined as of June 30, 2014, reflecting the most recent information available from the pension plan. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, 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**

**JUNE 30, 2015**

<b>CalPERS</b>	<b>6/30/14 *</b>
Contractually required District contribution (actuarially determined)	\$ 436,551
Contributions recognized by pension plan in relation to the contractually required District contributions	436,551
Contribution deficiency (excess)	\$ 0
District's covered-employee payroll	\$ 3,708,699
Contributions recognized by pension plan in relation to contractually required District contribution as a percentage of covered-employee payroll	11.771%

**Methods and Assumptions Used to Determine Contribution Rates**

Valuation Date	June 30, 2013
Funding Method	Individual Entry Age Normal Cost
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Varies
Asset Valuation Method	Expected Value of Assets Smoothing Technique
Inflation	2.75%
Salary Increases	5.06% Average, Including Inflation of 3.00%
Investment Rate of Return	7.50%, net of Administrative Expenses
Retirement Age	CalPERS Experience Study
Mortality	CalPERS Experience Study

**Changes in Benefit Terms**

There were no changes to benefit terms that applied to all members of the CalPERS.

**Changes of Assumptions**

There were no changes in assumptions.

\* This information is determined as of June 30, 2014, reflecting the most recent information available from the pension plan. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. In the future, additional years will be added to this schedule as information becomes available until 10-years are presented.

**LOS GATOS UNION SCHOOL DISTRICT**  
**ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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>
Leigh-Anne Marcellin	President	December, 2016
Peter Noymer	Clerk	December, 2018
Alex Potts	Member	December, 2018
Emi Eto	Member	December, 2016
Vacant	Member	December, 2018

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, 2015**

	<b>P-2 Report</b>			
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>Totals</b>
Regular	1,250.01	1,157.32	805.75	3,213.08
Extended Year - Special Education	0.74	0.56	0.51	1.81
Special Education - NPS/LCI	0.98	0.06		1.04
Extended Year - NPS/LCI	0.10		0.09	0.19
<b>Totals</b>	<b>1,251.83</b>	<b>1,157.94</b>	<b>806.35</b>	<b>3,216.12</b>

	<b>Annual Report</b>			
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>Totals</b>
Regular	1,252.29	1,157.07	804.23	3,213.59
Extended Year - Special Education	0.74	0.56	0.51	1.81
Special Education - NPS/LCI	0.97	0.05		1.02
Extended Year - NPS/LCI	0.10		0.09	0.19
<b>Totals</b>	<b>1,254.10</b>	<b>1,157.68</b>	<b>804.83</b>	<b>3,216.61</b>

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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<b><u>Grade Level</u></b>	<b><u>Minutes Required</u></b>	<b><u>Adjusted Minutes Required</u></b>	<b><u>2014-15 Actual Minutes</u></b>	<b><u>Number of Days Traditional Calendar</u></b>	<b><u>Number of Days Multitrack Calendar</u></b>	<b><u>Status</u></b>
Kindergarten	36,000	35,000	36,000	180	N/A	In Compliance
Grade 1	50,400	49,000	51,576	180	N/A	In Compliance
Grade 2	50,400	49,000	51,576	180	N/A	In Compliance
Grade 3	50,400	49,000	51,576	180	N/A	In Compliance
Grade 4	54,000	52,500	54,096	180	N/A	In Compliance
Grade 5	54,000	52,500	54,096	180	N/A	In Compliance
Grade 6	54,000	52,500	53,953	179	N/A	In Compliance
Grade 7	54,000	52,500	53,953	179	N/A	In Compliance
Grade 8	54,000	52,500	53,953	179	N/A	In Compliance

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California			
Department of Education (CDE):			
Child Nutrition Cluster:			
National School Lunch	10.555	13524	\$ 47,062
School Basic Breakfast	10.553	13525	10,585
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title II - Improving Teacher Quality	84.367	14341	42,636
NCLB: Title III - Immigrant Education	84.365	15146	14,130
Passed through NW SELPA #3:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	525,154
IDEA Part B Local Assistance - Private	84.027A	13379	2,793
IDEA Part B Preschool Grants	84.173	13430	7,510
IDEA Part B Preschool Local Entitlement	84.027A	13682	17,469
IDEA Part B Preschool Staff Development	84.173A	13431	50
Total			<u>\$ 667,389</u>

**LOS GATOS UNION SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	Deferred Maintenance Fund	Special Revenue - Special Reserve Fund
June 30, 2015 Annual Financial and Budget Report Fund Balances	\$ 6,200,568	\$ 382,894	\$ 2,210,545
Reclassifications Increasing (Decreasing) Fund Balances:			
Reclassification of Fund Balances	<u>2,593,439</u>	<u>(382,894)</u>	<u>(2,210,545)</u>
June 30, 2015 Audited Financial Statements Fund Balances	<u>\$ 8,794,007</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, 2015.

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	GENERAL FUND			
	(Budget) * 2015-16	2014-15	2013-14	2012-13
Revenues and Other Financial Sources	\$ 31,318,857	\$ 32,512,734	\$ 30,457,197	\$ 31,355,460
Expenditures	30,806,568	31,974,765	28,759,199	28,241,200
Other Uses and Transfers Out	45,000	400,000	2,840,000	3,015,000
Total Outgo	30,851,568	32,374,765	31,599,199	31,256,200
Change in Fund Balance	467,289	137,969	(1,142,002)	99,260
Ending Fund Balance	\$ 9,261,296	\$ 8,794,007	\$ 8,656,038	\$ 9,798,040
Available Reserves	\$ 7,442,908	\$ 7,229,320	\$ 4,277,011	\$ 7,774,698
Reserve for Economic Uncertainties **	\$ 4,668,985	\$ 4,831,035	\$ 4,277,011	\$ 4,688,430
Available Reserves as a Percentage of Total Outgo	24.1%	22.3%	13.5%	24.9%
Average Daily Attendance at P-2	3,261	3,216	3,169	3,099
Total Long-Term Liabilities ***	\$ 122,070,238	\$ 127,458,269	\$ 137,634,006	\$ 111,434,519

\* The amounts reported for the 2015-16 budget are presented for analytical purposes only and have not been audited.

\*\* Reported balances are a component of available reserves.

\*\*\* The 2013-14 fiscal year balance has been restated - see note 19.

The fund balance of the General Fund decreased \$1,004,033 (10.2%) over the past two years. The fiscal year 2015-16 budget projects an increase of \$467,289 (5.3%). 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 \$99,260 and \$137,969 during fiscal years 2012-13 and 2014-15, respectively.

Average daily attendance (ADA) increased 117 ADA over the past two years. The District projects an increase of 45 ADA during fiscal year 2015-16.

Total long-term liabilities increased \$16,023,750 over the past two years due primarily to the implementation of GASB 68.

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**MEASURE E PARCEL TAX**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Prior Fiscal Years</u>	<u>Current Fiscal Year</u>	<u>Inception To Date</u>
<b><u>Revenues</u></b>			
Parcel Tax Proceeds, Net	\$16,034,248	\$ 2,748,113	\$18,782,361
Total Revenues	<u>16,034,248</u>	<u>2,748,113</u>	<u>18,782,361</u>
<b><u>Expenditures</u></b>			
Salaries and Benefits	15,955,375	2,747,780	18,703,155
Supplies	13,131	173	13,304
Travel	21,703	124	21,827
Services	44,039		44,039
Total Expenditures	<u>16,034,248</u>	<u>2,748,077</u>	<u>18,782,325</u>
Net Change in Fund Balances	0	36	<u>\$ 36</u>
Fund Balances - Beginning	<u>0</u>	<u>0</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 36</u>	

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**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. See Note 3 for any excess of expenditures over appropriations

**B. 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.

**C. 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.

**D. 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.

**E. 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.

**LOS GATOS UNION SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)**

**F. 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.

**G. 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.

**H. Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**I. 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.

**J. 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.

**K. Schedule of Revenues, Expenditures, and Changes in Fund Balances - Measure E Parcel Tax**

This schedule discloses the revenues, expenditures, and remaining fund balance of the District's Measure E 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 *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* for the fiscal year ended June 30, 2015.

**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 *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting (K-12 Audit Guide)*, 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 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
Ratios 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
Regional Occupational Centers or Programs Maintenance of Effort	Not Applicable
Adult Education Maintenance of Effort	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	No (see below)
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
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 2014-15.

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, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2014-15 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which is described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 15-1**. Our opinion on state compliance on the programs previously identified is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 *2014-15 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, 2015



**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, 2015, 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, 2015.

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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not 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, 2015

**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB  
CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Los Gatos Union School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Los Gatos Union School District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Los Gatos Union School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Los Gatos Union School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Los Gatos Union School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 7, 2015

## FINDINGS AND QUESTIONED COSTS SECTION

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**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	_____ <u>X</u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

**Federal Awards**

Internal control over major programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)

	_____ Yes	_____ <u>X</u> No	
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.027 / 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes    \_\_\_\_\_ X No

**State Awards**

Internal control over state programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ None reported	

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, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

There are no matters to report for the fiscal year ended June 30, 2015.

**LOS GATOS UNION SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are no matters to report for the fiscal year ended June 30, 2015.

**LOS GATOS UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

**15 - 1 / 10000**

**SIGNIFICANT DEFICIENCY**

**KINDERGARTEN CONTINUANCE**

Criteria: Education Code Section 46300(g) allows a district to include in its average daily attendance kindergarten pupils who have already completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Education Code Section 48011, approved in form and content by the California Department of Education (CDE), and signed by the pupil's parent or guardian near the anniversary date of the pupil's kindergarten admittance.

Condition: During fiscal year 2014-15, one student continued in kindergarten for a second year without obtaining an agreement made pursuant to Education Code Section 48011 that was approved in form and content by the CDE. As a result, the average daily attendance (ADA) reported on the P-2 attendance report was overstated by .93 ADA.

Questioned Costs: None. Although the P-2 attendance report was overstated by .93 ADA, the District was funded under the Basic Aid Provision during fiscal year 2014-15. As a result, the overstatement of reported ADA does not affect the amount of funding received by the District.

Context: All kindergarten students were tested for compliance with kindergarten continuation requirements.

Effect: The District did not comply with the requirements of Education Code Section 48011.

Cause: The state compliant kindergarten continuance form provided by the California Department of Education was not used in accordance with District policy.

Recommendation: 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. (Since the disallowed ADA is less than one ADA no revision of the P-2 attendance report is required.)

District Response: The District has retrained all site administrators on the kindergarten requirements when a student is retained in kindergarten. The District is expected to be in full compliance going forward.

**LOS GATOS UNION SCHOOL DISTRICT  
STATUS OF PRIOR YEAR RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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There were no matters reported in the prior audit report.