

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

AUDIT REPORT

JUNE 30, 2014

LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2014

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LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2014

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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, 2014, 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, 2014, 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 49, and schedule of funding progress on page 52 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 governmental fund financial statements, statistical section, and supplementary schedules 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 governmental fund financial statements, statistical section, and supplementary schedules 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 governmental fund financial statements, statistical section, and supplementary schedules 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 5, 2014 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 5, 2014

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Los Gatos Union School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. 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 16 and 17, 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 18 through 24, 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 2013-14 represents the first 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.
- The District's overall financial status improved during the course of the year, as total net position increased 13%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$3,394,804.
- Capital assets, net of depreciation, increased \$10,333,367 due to the current year addition of \$13,512,003 of new capital assets and improvements, and the current year recognition of \$3,178,636 of depreciation expense.
- Total long-term liabilities decreased \$4,622,865, due primarily to the current year reduction of the District's obligation for general obligation bonds.
- The District's P-2 ADA increased from 3,099 in fiscal year 2012-13, up to 3,169 in fiscal year 2013-14, an increase of 2.3%.
- The General Fund contributed \$2.8 million to the Capital Projects - Special Reserve Fund to set aside funding for future capital projects. As a result, the District incurred a \$1,142,002 decrease in fund balance. In addition, the District reported a \$3,497,687 decrease in its available reserves, due to a significant increase in the portion of the ending fund balance that has been assigned for specific future uses.
- 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 2013-14, General Fund expenditures and other financing uses totaled \$31,599,199. At June 30, 2014, the District has available reserves of \$4,277,011 in the General Fund, which represents a reserve of 13.5%.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

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

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

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

Reporting the District as a Whole

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

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

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

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

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

Governmental Activities:

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

Business-type Activities:

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

Reporting the District's Most Significant Funds

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

Governmental Funds:

The major governmental funds of Los Gatos Union School District are the General Fund, Bond Interest and Redemption Fund, Measure E - Building 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, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's total net position increased from \$26,101,746 at June 30, 2013, up to \$29,496,550 at June 30, 2014, an increase of 13%.

	Governmental Activities	
	2013	2014
<u>Assets</u>		
Deposits and Investments	\$ 42,489,403	\$ 31,316,381
Receivables	1,455,439	860,844
OPEB Asset	736,699	541,993
Prepaid Expenses	4,199	20,300
Capital Assets, net	<u>95,170,893</u>	<u>105,504,260</u>
Total Assets *	<u>139,856,633</u>	<u>138,243,778</u>
<u>Deferred Outflow of Resources</u>		
Deferred Amount on Refunding *	<u>2,283,799</u>	<u>2,140,682</u>
<u>Liabilities</u>		
Current	9,308,671	9,029,344
Long-term	<u>106,730,015</u>	<u>101,858,566</u>
Total Liabilities	<u>116,038,686</u>	<u>110,887,910</u>
<u>Net Assets</u>		
Net Investment in Capital Assets *	(13,896,174)	914,926
Restricted for Capital Projects	15,324,996	2,358,420
Restricted for Debt Service	5,475,630	5,448,494
Restricted for Educational Programs	1,334,555	1,269,479
Restricted for Other Purposes	781,502	591,344
Unrestricted	<u>17,081,237</u>	<u>18,913,887</u>
Total Net Position *	<u>\$ 26,101,746</u>	<u>\$ 29,496,550</u>

* The prior year balances have been adjusted to reflect the restatement discussed in Note 18.

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, 2014**

(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 \$3,394,804.

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2014</u>
<u>Comparative Statement of Changes in Net Position</u>		
<u>Program Revenues</u>		
Charges for Services	\$ 534,909	\$ 528,060
Operating Grants & Contributions	3,989,764	4,413,763
Capital Grants & Contributions	1,227,332	0
<u>General Revenues</u>		
Taxes Levied	34,073,014	32,903,501
Federal & State Aid	1,121,261	1,227,902
Interest & Investment Earnings	162,568	120,634
Transfers from Other Agencies	51,215	53,839
Miscellaneous	716,344	982,192
Total Revenues	<u>41,876,407</u>	<u>40,229,891</u>
<u>Expenses</u>		
Instruction	21,005,478	21,931,123
Instruction-Related Services	2,675,538	2,743,326
Pupil Services	1,944,971	2,157,452
General Administration	2,714,689	2,543,132
Plant Services	3,974,214	3,547,967
Interest on Long-Term Debt	3,983,306	3,839,393
Other Outgo	145,598	72,694
Total Expenses	<u>36,443,794</u>	<u>36,835,087</u>
Change in Net Position	<u>\$ 5,432,613</u>	<u>\$ 3,394,804</u>

Table includes financial data of the combined governmental funds.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

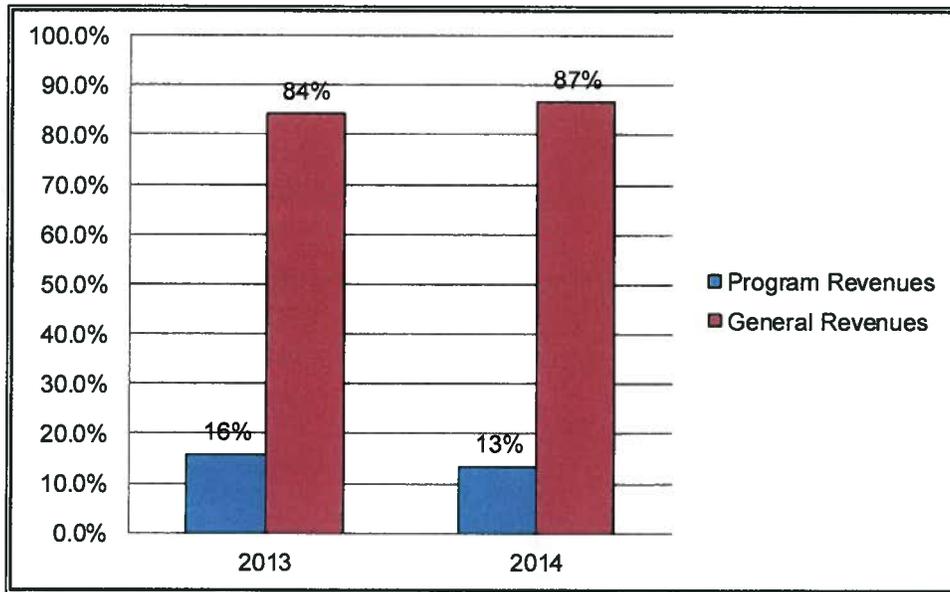
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2013	2014	2013	2014
Instruction	\$ 21,005,478	\$ 21,931,123	\$ 17,900,302	\$ 20,052,548
Instruction-Related Services	2,675,538	2,743,326	2,581,052	2,661,016
General Administration	2,714,689	2,543,132	2,709,999	2,015,562
Plant Services	3,974,214	3,547,967	3,969,563	3,510,779
Interest on Long-Term Debt	3,983,306	3,839,393	3,983,306	3,839,393
Other Expenses	2,090,569	2,230,146	(452,433)	(186,034)
Totals	\$ 36,443,794	\$ 36,835,087	\$ 30,691,789	\$ 31,893,264

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 \$31,893,264 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



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, 2014**

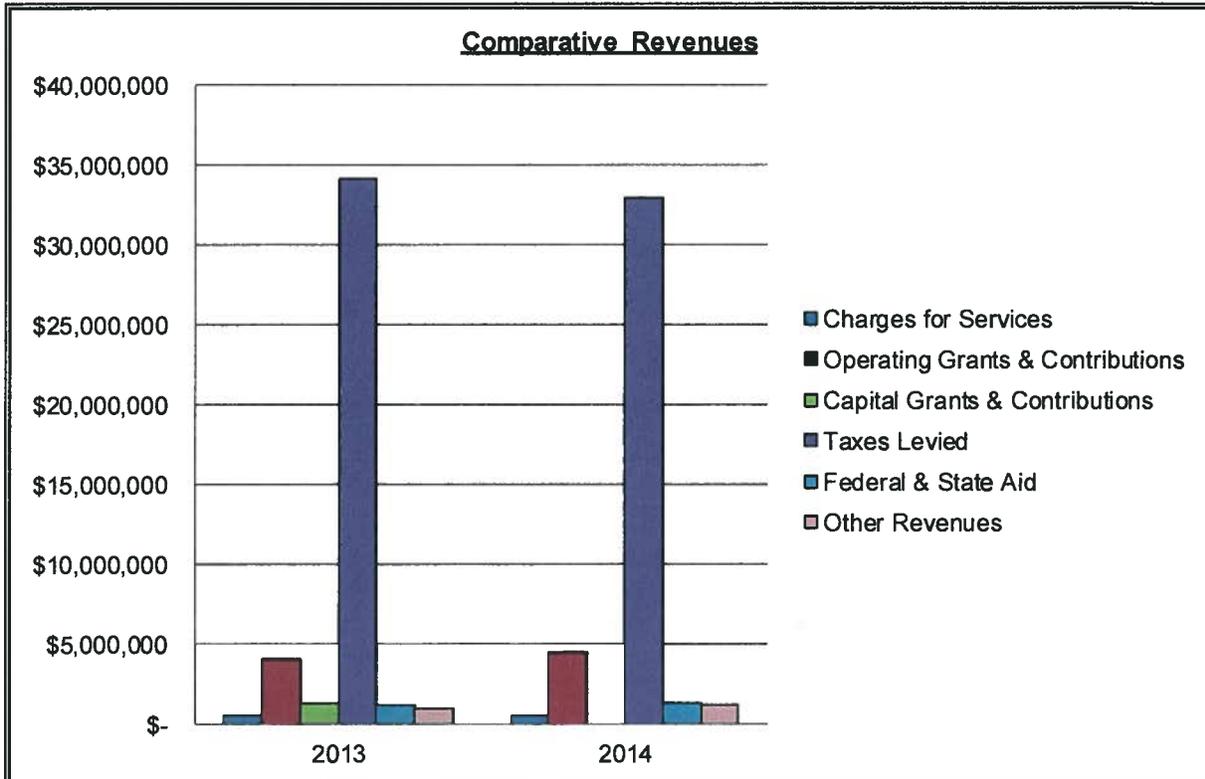
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 534,909	1.28%	\$ 528,060	1.31%
Operating Grants & Contributions	3,989,764	9.53%	4,413,763	10.97%
Capital Grants & Contributions	1,227,332	2.93%	0	
<u>General Revenues</u>				
Taxes Levied	34,073,014	81.37%	32,903,501	81.79%
Federal & State Aid	1,121,261	2.68%	1,227,902	3.05%
Other Revenues	930,127	2.22%	1,156,665	2.88%
Total Revenues	<u>\$ 41,876,407</u>	<u>100.00%</u>	<u>\$ 40,229,891</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds.



**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

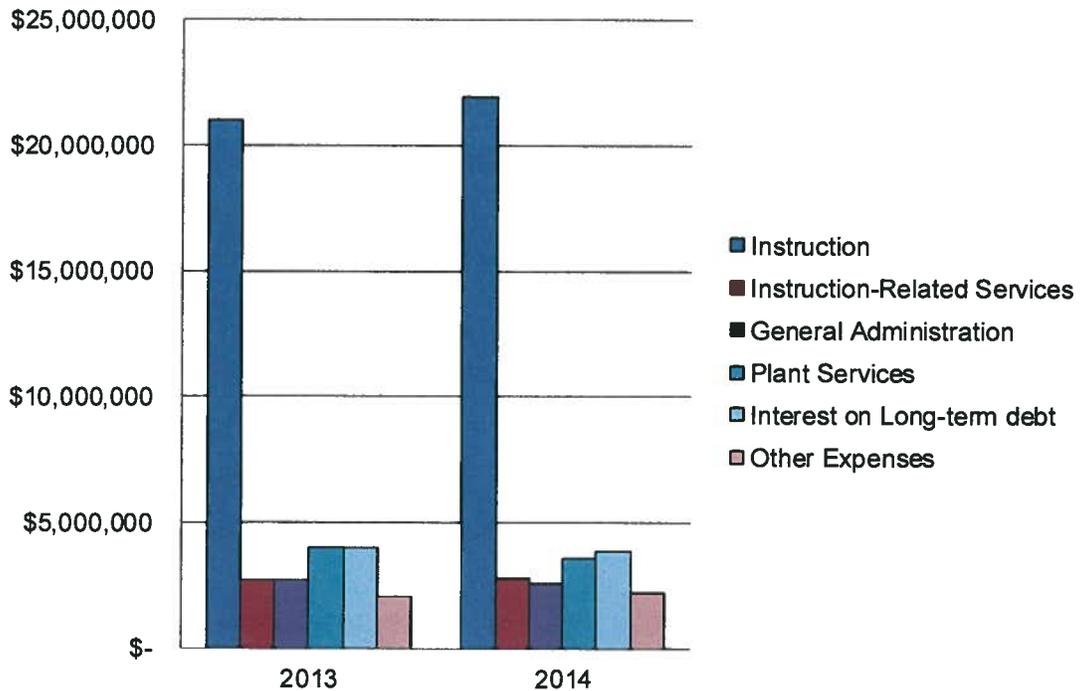
GOVERNMENTAL ACTIVITIES (CONTINUED)

Schedule of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2013 Amount</u>	<u>Percent of Total</u>	<u>FYE 2014 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 21,005,478	57.64%	\$ 21,931,123	59.54%
Instruction-Related Services	2,675,538	7.34%	2,743,326	7.45%
General Administration	2,714,689	7.45%	2,543,132	6.90%
Plant Services	3,974,214	10.91%	3,547,967	9.63%
Interest on Long-Term Debt	3,983,306	10.93%	3,839,393	10.42%
Other Expenses	2,090,569	5.74%	2,230,146	6.05%
Total Expenses	\$ 36,443,794	100.00%	\$ 36,835,087	100.00%

Table includes financial data of the combined governmental funds.

Comparative Expenses



**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2013	2014
Land	\$ 241,224	\$ 241,224
Sites and Improvements	1,053,965	1,053,965
Buildings and Improvements	118,088,566	118,088,566
Furniture and Equipment	589,900	579,489
Work-in-Progress	9,649,687	23,136,274
Subtotals	129,623,342	143,099,518
Less: Accumulated Depreciation	(34,452,449)	(37,595,258)
Capital Assets, net	<u>\$ 95,170,893</u>	<u>\$ 105,504,260</u>

Capital assets, net of depreciation, increased \$10,333,367 due to the current year addition of \$13,512,003 of new capital assets and improvements, and the current year recognition of \$3,178,636 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2013	2014
Compensated Absences	\$ 83,653	\$ 81,638
General Obligation Bonds	107,180,000	102,870,000
Unamortized Bond Premium	4,021,113	3,758,564
Capital Leases	149,753	101,452
Totals	<u>\$ 111,434,519</u>	<u>\$ 106,811,654</u>

Total long-term liabilities decreased \$4,622,865, due primarily to the current year reduction of the District's obligation for general obligation bonds.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(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 96% 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

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2013	Fund Balances June 30, 2014	Increase (Decrease)
General *	\$ 9,798,040	\$ 8,656,038	\$ (1,142,002)
Bond Interest & Redemption	7,223,092	6,949,611	(273,481)
Measure E - Building	14,651,772	915,989	(13,735,783)
Capital Projects - Special Reserve	8,708,404	11,637,692	2,929,288
Cafeteria	37,804	34,714	(3,090)
Capital Facilities	673,224	1,428,342	755,118
Measure B - Building	0	0	0
Totals	\$ 41,092,336	\$ 29,622,386	\$ (11,469,950)

* The prior year fund balance has been adjusted to reflect the reclassification discussed in Note 19.

The fund balance of the General Fund decreased \$1,142,002, after making a \$2.8 million contribution to the Capital Projects - Special Reserve Fund. The fund balance of the Measure E - Building Fund decreased \$13,735,783 due to the current year spending down of bond proceeds received in the prior fiscal year.

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. The original budget presented on page 49 includes only new revenues for 2013-14.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(PREPARED BY DISTRICT MANAGEMENT)

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 2014-15 will be the second 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.

BASIC FINANCIAL STATEMENTS

LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 31,316,381
Receivables (Note 4)	860,844
OPEB Asset (Note 1I)	541,993
Prepaid Expenses (Note 1I)	20,300
Capital Assets: (Note 6)	
Land	241,224
Sites and Improvements	1,053,965
Buildings and Improvements	118,088,566
Furniture and Equipment	579,489
Work-in-Progress	23,136,274
Less: Accumulated Depreciation	(37,595,258)
Total Assets	138,243,778
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Refunding	2,140,682
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	2,269,263
Accrued Interest Payable	1,501,117
Unearned Revenue (Note 1I)	305,876
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences	81,638
General Obligation Bonds	
Current Interest	4,560,000
Unamortized Bond Premium	262,550
Capital Lease	48,900
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 7)	
Current Interest	98,310,000
Unamortized Bond Premium	3,496,014
Capital Lease (Note 8)	52,552
Total Liabilities	110,887,910
<u>Net Position</u>	
Net Investment in Capital Assets	914,926
Restricted:	
For Capital Projects	2,358,420
For Debt Service	5,448,494
For Educational Programs	1,269,479
For Other Purposes	591,344
Unrestricted	18,913,887
Total Net Position	\$ 29,496,550

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, 2014**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 21,931,123		\$ 1,878,575		\$ (20,052,548)
Instruction-Related Services:					
Supervision of Instruction	557,944		78,027		(479,917)
Instructional Library and Technology	280,464		1,580		(278,884)
School Site Administration	1,904,918		2,703		(1,902,215)
Pupil Services:					
Home-to-School Transportation	33,421				(33,421)
Food Services	717,490	\$ 528,060	76,917		(112,513)
Other Pupil Services	1,406,541		308,367		(1,098,174)
General Administration:					
Data Processing Services	801,223		526,289		(274,934)
Other General Administration	1,741,909		1,281		(1,740,628)
Plant Services	3,547,967		37,188		(3,510,779)
Interest on Long-Term Debt	3,839,393				(3,839,393)
Other Outgo	72,694		1,502,836		1,430,142
Total Governmental Activities	<u>\$ 36,835,087</u>	<u>\$ 528,060</u>	<u>\$ 4,413,763</u>	<u>\$ 0</u>	<u>(31,893,264)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					20,451,781
Taxes Levied for Debt Service					8,039,472
Taxes Levied for Specific Purposes					4,412,248
Federal and State Aid - Unrestricted					1,227,902
Interest and Investment Earnings					120,634
Transfers from Other Agencies					53,839
Miscellaneous					982,192
Total General Revenues					<u>35,288,068</u>
Change in Net Position					3,394,804
Net Position - July 1, 2013 (As Restated - Note 18)					<u>26,101,746</u>
Net Position - June 30, 2014					<u>\$ 29,496,550</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**LOS GATOS UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	Bond Interest and Redemption
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 8,480,474	\$ 6,945,997
Receivables (Note 4)	811,386	3,614
Due from Other Funds (Note 5)		
Prepaid Expenditures (Note 11)	20,300	
Total Assets	\$ 9,312,160	\$ 6,949,611
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 363,213	
Due to Other Funds (Note 5)	10,000	
Unearned Revenue (Note 11)	282,909	
Total Liabilities	656,122	
Fund Balances: (Note 11)		
Nonspendable	23,100	
Restricted	1,269,479	\$ 6,949,611
Assigned	3,086,448	
Unassigned	4,277,011	
Total Fund Balances	8,656,038	6,949,611
Total Liabilities and Fund Balances	\$ 9,312,160	\$ 6,949,611

<u>Measure E - Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,671,695 3,305	\$ 11,639,730 9,090	\$ 1,578,485 33,449 10,000	\$ 31,316,381 860,844 10,000 20,300
<u>\$ 2,675,000</u>	<u>\$ 11,648,820</u>	<u>\$ 1,621,934</u>	<u>\$ 32,207,525</u>
\$ 1,759,011	\$ 11,128	\$ 135,911 22,967	\$ 2,269,263 10,000 305,876
<u>1,759,011</u>	<u>11,128</u>	<u>158,878</u>	<u>2,585,139</u>
915,989	14,089 11,623,603	1,454,593 8,463	23,100 10,603,761 14,718,514 4,277,011
<u>915,989</u>	<u>11,637,692</u>	<u>1,463,056</u>	<u>29,622,386</u>
<u>\$ 2,675,000</u>	<u>\$ 11,648,820</u>	<u>\$ 1,621,934</u>	<u>\$ 32,207,525</u>

**LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Governmental Funds **\$ 29,622,386**

Amounts reported for governmental activities in the statement of net position are different 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:

541,993

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The amount that capital assets exceeded accumulated depreciation was:

Capital Assets	\$ 143,099,518	
Accumulated Depreciation	(37,595,258)	
	105,504,260	105,504,260

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 debt refunding, reported as a deferred outflow of resources, was:

2,140,682

In governmental funds, the unmatured 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 unmatured interest owed at the end of the period was:

(1,501,117)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences	\$ 81,638	
General Obligation Bonds	102,870,000	
Unamortized Bond Premium	3,758,564	
Capital Leases	101,452	
	(106,811,654)	(106,811,654)

Total Net Position - Governmental Activities **\$ 29,496,550**

**LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Bond Interest and Redemption
<u>Revenues</u>		
LCFF Sources:		
State Apportionment / Transfers	\$ 634,920	
Local Taxes	20,451,781	
Total LCFF Sources	21,086,701	
Federal Revenue	406,167	\$ 180,248
State Revenue	1,532,603	34,001
Local Revenue	7,408,506	8,022,421
Total Revenues	30,433,977	8,236,670
<u>Expenditures</u>		
Instruction	19,617,808	
Supervision of Instruction	504,076	
Instructional Library and Technology	253,386	
School Site Administration	1,721,003	
Home-To-School Transportation	33,421	
Food Services		
Other Pupil Services	1,270,743	
Data Processing Services	723,867	
Other General Administration	1,573,732	
Plant Services	2,914,314	
Facilities Acquisition and Construction	20,835	
Debt Service:		
Principal Retirement	48,301	4,310,000
Interest and Issuance Costs	5,019	4,200,151
Other Outgo	72,694	
Total Expenditures	28,759,199	8,510,151
Excess of Revenues Over (Under) Expenditures	1,674,778	(273,481)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In	23,220	
Operating Transfers Out	(2,840,000)	
Total Other Financing Sources (Uses)	(2,816,780)	0
Net Change in Fund Balances	(1,142,002)	(273,481)
Fund Balances - July 1, 2013 (As Reclassified - Note 19)	9,798,040	7,223,092
Fund Balances - June 30, 2014	\$ 8,656,038	\$ 6,949,611

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Measure E - Building</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
			\$ 634,920
			20,451,781
			21,086,701
		\$ 65,243	651,658
		2,446	1,569,050
\$ 35,362	\$ 140,416	1,315,777	16,922,482
<u>35,362</u>	<u>140,416</u>	<u>1,383,466</u>	<u>40,229,891</u>
			19,617,808
			504,076
			253,386
			1,721,003
			33,421
		648,218	648,218
			1,270,743
			723,867
			1,573,732
13,771,145	11,128		2,914,314
			13,803,108
			4,358,301
			4,205,170
			72,694
<u>13,771,145</u>	<u>11,128</u>	<u>648,218</u>	<u>51,699,841</u>
<u>(13,735,783)</u>	<u>129,288</u>	<u>735,248</u>	<u>(11,469,950)</u>
	2,800,000	40,000	2,863,220
		(23,220)	(2,863,220)
<u>0</u>	<u>2,800,000</u>	<u>16,780</u>	<u>0</u>
(13,735,783)	2,929,288	752,028	(11,469,950)
<u>14,651,772</u>	<u>8,708,404</u>	<u>711,028</u>	<u>41,092,336</u>
<u>\$ 915,989</u>	<u>\$ 11,637,692</u>	<u>\$ 1,463,056</u>	<u>\$ 29,622,386</u>

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, 2014

Net Change in Fund Balances - Governmental Funds **\$ (11,469,950)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceeded depreciation expense during the fiscal year:

Capital Outlays	\$ 13,512,003	
Depreciation Expense	(3,178,636)	
		10,333,367

In the statement of activities, certain operating expenses-compensated absences (vacations) and other postemployment benefits, are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts earned exceeded amounts used by: (192,691)

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 debt refunding was: (143,117)

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	\$ 4,310,000	
Unamortized Bond Premium	262,549	
Capital Leases	48,301	
		4,620,850

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest on long-term debt decreased by: 246,345

Change in Net Position of Governmental Activities **\$ 3,394,804**

**LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 5,503	\$ 5,503
Total Assets	5,503	5,503
<u>Liabilities</u>		
Due to Student Groups	5,503	5,503
Total Liabilities	5,503	5,503
<u>Net Position</u>		
Restricted	0	0
Total Net Position	\$ 0	\$ 0

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 (GASB14) 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 March of 2012, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, with required implementation for the District during the year ended June 30, 2014. The objective of GASB 65 is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The effect of implementing GASB 65 resulted in a restatement of the beginning net position balance to write-off unamortized debt issuance costs. The effect of the restatement on these financial statements is presented in Note 18.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fund types:

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

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

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

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

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

Major Governmental Funds:

General Fund is the general operating fund of the District. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

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

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.

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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

Non-major Governmental Funds (Concluded):

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 B - Building Fund is used to account for proceeds from the sale general obligation bonds, authorized by the voters of the District on June 5, 2001, and the subsequent expenditure of those funds on capital projects listed on the Measure B 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.

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 49.

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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and 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.

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 Postemployment Benefit (OPEB) Assets

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 9. 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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

4. Capital Assets (Concluded)

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:

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

5. Deferred Outflows of Resources

Deferred outflows of resources represent deferred amounts from the refunding of debt, which are amortized over the life of the old or new debt, whichever period is shorter. Reported amounts are equally offset as a component of the District's net investment in capital assets.

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. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as long-term liabilities in the Statement of Net Position. Bond premiums and discounts as well as refunding costs, when applicable, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premiums, discounts, or refunding.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance and refunding costs, when debt is issued. The face amount of the debt issued, premiums, discounts, and issuance or refunding costs are reported as other financing sources or uses.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Assets, Liabilities and Equity (Continued)

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

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

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

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

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

10. Fund Balance Classification

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 classifications used in the governmental fund financial statements are as follows:

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Assets, Liabilities and Equity (Concluded)

10. Fund Balance Classification (Concluded)

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.

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, 2014, are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 12,499	\$ 5,503
Cash in Revolving Fund	2,800	
Cash with Fiscal Agent	448,948	
County Pool Investments	<u>30,852,134</u>	
Total Deposits and Investments	<u>\$ 31,316,381</u>	<u>\$ 5,503</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash on Hand and in Banks

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

Cash in Revolving Fund

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

Cash with Fiscal Agent

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

County Pool Investments

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

General Authorization

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

<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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Segmented Time Distribution

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

<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	\$ 30,852,134	\$ 30,886,772	\$ 15,772,455	\$ 15,079,679

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	\$ 30,852,134	\$ 30,886,772			\$ 30,852,134

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).

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits (Concluded)

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, 2014, the District does not have a bank balance that is exposed to custodial credit risk.

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2014, 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

District expenditures did not exceed appropriations in any fund during fiscal year 2013-14.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014 consist of the following:

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Measure E - Building Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 30,842				\$ 7,892	\$ 38,734
State Government	250,510				225	250,735
Local Governments	296,567					296,567
Interest	11,487	\$ 3,614	\$ 3,305	\$ 9,090	1,332	28,828
Miscellaneous	221,980				24,000	245,980
Totals	<u>\$ 811,386</u>	<u>\$ 3,614</u>	<u>\$ 3,305</u>	<u>\$ 9,090</u>	<u>\$ 33,449</u>	<u>\$ 860,844</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2014 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General		\$ 10,000
Cafeteria	\$ 10,000	<u> </u>
Totals	<u>\$ 10,000</u>	<u>\$ 10,000</u>

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

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2013-14 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 23,220	\$ 2,840,000
Capital Projects - Special Reserve	2,800,000	
Cafeteria	40,000	
Capital Facilities	<u> </u>	<u>23,220</u>
Totals	<u>\$ 2,863,220</u>	<u>\$ 2,863,220</u>

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

Transfer of \$2,800,000 from General Fund to Capital Projects - Special Reserve Fund to provide funding for future board approved capital projects.

Transfer of \$23,220 from Capital Facilities Fund to General Fund to transfer allowable 3% administration fee.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014, is shown below:

	<u>Balances</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2014</u>
Land	\$ 241,224			\$ 241,224
Sites and Improvements	1,053,965			1,053,965
Buildings and Improvements	118,088,566			118,088,566
Furniture and Equipment	589,900	\$ 25,416	\$ 35,827	579,489
Work-in-Progress	9,649,687	13,486,587		23,136,274
Totals at Historical Cost	\$ 129,623,342	\$ 13,512,003	\$ 35,827	\$ 143,099,518
Less Accumulated Depreciation for:				
Sites and Improvements	452,390	39,974		492,364
Buildings and Improvements	33,516,477	3,108,151		36,624,628
Furniture and Equipment	483,582	30,511	35,827	478,266
Total Accumulated Depreciation	\$ 34,452,449	\$ 3,178,636	\$ 35,827	\$ 37,595,258
Governmental Activities				
Capital Assets, net	<u>\$ 95,170,893</u>	<u>\$ 10,333,367</u>	<u>\$ 0</u>	<u>\$ 105,504,260</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 2,120,624
Supervision of Instruction	53,868
Instructional Library, Media, and Technology	27,078
School Site Administration	183,915
Food Services	69,272
All Other Pupil Services	135,798
Data Processing Services	77,356
All Other General Administration	168,177
Plant Services	<u>342,548</u>
Total	<u>\$ 3,178,636</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - GENERAL OBLIGATION BONDS

On November 27, 2012, the District issued \$15,200,000 of general obligation bonds with interest rates ranging from 2.0 to 4.0 percent. The bonds were authorized at an election held on June 8, 2010, whereby the requisite 55% of the voters of the District approved the sale of up to \$30,900,000 of general obligation bonds to finance the modernization, construction, and renovation of the various projects identified in the Measure E ballot measure. The current year issue represents the second and final series of bonds issued and authorized under Measure E.

The outstanding general obligation debt of the District as of June 30, 2014 was as follows:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2013</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2014</u>
12/18/03	3.00-5.00	8/1/30	\$ 25,000,000	\$ 2,800,000		\$ 500,000	\$ 2,300,000
11/29/05	3.00-5.13	8/1/32	18,000,000	17,425,000			17,425,000
5/10/07	4.00	8/1/32	13,000,000	11,920,000		305,000	11,615,000
10/19/11	2.00-4.75	8/1/26	28,190,000	26,615,000		1,240,000	25,375,000
5/25/11	2.00-4.75	8/1/35	11,360,000	7,200,000		300,000	6,900,000
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	21,680,000		245,000	21,435,000
11/27/12	2.00-4.00	8/1/37	<u>15,200,000</u>	<u>15,200,000</u>	<u>\$ 0</u>	<u>1,720,000</u>	<u>13,480,000</u>
Totals			<u>\$137,310,000</u>	<u>\$107,180,000</u>	<u>\$ 0</u>	<u>\$ 4,310,000</u>	<u>\$102,870,000</u>

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2014, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 4,560,000	\$ 4,022,673	\$ 8,582,673
2016	4,600,000	3,844,550	8,444,550
2017	4,900,000	3,664,097	8,564,097
2018	3,930,000	3,495,021	7,425,021
2019	4,055,000	3,337,115	7,392,115
2020-2024	22,100,000	14,243,659	36,343,659
2025-2029	26,775,000	9,503,351	36,278,351
2030-2034	27,850,000	3,509,689	31,359,689
2035-2039	<u>4,100,000</u>	<u>243,519</u>	<u>4,343,519</u>
Totals	<u>\$ 102,870,000</u>	<u>\$ 45,863,674</u>	<u>\$ 148,733,674</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - CAPITAL LEASE

The District has entered into a lease-purchase agreement to finance the acquisition of computer equipment valued at \$203,073. Future minimum lease payments under this agreement are as follows:

Year Ended <u>June 30</u>	Lease <u>Payments</u>
2015	\$ 53,259
2016	53,259
Total payments	106,518
Less amount representing interest	(5,066)
Present value of net minimum lease payments	\$ 101,452

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

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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

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

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Plan Descriptions (Concluded):

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 204 eligible active employees and 32 eligible retired employees covered under the OPEB plan as of July 1, 2012, the effective date of the biennial OPEB valuation. For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

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

Annual OPEB Cost and Net OPEB Obligation/(Asset): The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation/(Asset) that resulted in a Net OPEB (Asset) of (\$541,993) for the year ended June 30, 2014.

Annual required contribution (ARC)	\$	654,819
Interest on Net OPEB (Assets)		(55,171)
Adjustment to ARC		<u>48,687</u>
Annual OPEB cost (expense)		648,335
Contributions for the fiscal year		<u>(453,629)</u>
Increase in Net OPEB (Asset)		194,706
Net OPEB (Asset) - June 30, 2013		<u>(736,699)</u>
Net OPEB (Asset) - June 30, 2014	\$	<u>(541,993)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation 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, 2014	\$ 648,335	69.97%	\$ (541,993)
June 30, 2013	637,031	86.0%	(736,699)
June 30, 2012	616,456	97.2%	(825,875)

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

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.

In the July 1, 2012, actuarial valuation, the liabilities were computed using the entry age normal method actuarial funding method with a 30-year level dollar 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 was assumed to be 10 percent for 2014 and graded down by 1 percent per year to an ultimate rate of 4 percent for all future years. The dental and vision trend rate was assumed to be 4 percent per year for all future years.

NOTE 10 - LONG-TERM LIABILITES

A schedule of changes in long-term liabilities for the year ended June 30, 2014, is shown below:

	Balances July 1, 2013	Additions	Deductions	Balances June 30, 2014	Due within One Year
Compensated Absences	\$ 83,653	\$ 81,638	\$ 83,653	\$ 81,638	\$ 81,638
General Obligation Bonds	107,180,000		4,310,000	102,870,000	4,560,000
Unamortized Bond Premium	4,021,113		262,549	3,758,564	262,550
Capital Leases	149,753		48,301	101,452	48,900
Totals	<u>\$ 111,434,519</u>	<u>\$ 81,638</u>	<u>\$ 4,704,503</u>	<u>\$ 106,811,654</u>	<u>\$ 4,953,088</u>

Compensated absences and capital leases are obligations of the General Fund, and general obligation bonds and unamortized bond premiums 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, 2014

NOTE 11 - FUND BALANCES

The fund balances as of June 30, 2014 are as follows:

	<u>General Fund</u>	<u>Bond Interest & Redemption Fund</u>	<u>Measure E - Building Fund</u>	<u>Capital Project- Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Nonspendable	\$ 23,100					\$ 23,100
Restricted	1,269,479	\$ 6,949,611	\$ 915,989	\$ 14,089	\$ 1,454,593	10,603,761
Assigned	3,086,448			11,623,603	8,463	14,718,514
Unassigned:						
Economic Uncertainties	<u>4,277,011</u>					<u>4,277,011</u>
Total Fund Balances	<u>\$ 8,656,038</u>	<u>\$ 6,949,611</u>	<u>\$ 915,989</u>	<u>\$ 11,637,692</u>	<u>\$ 1,463,056</u>	<u>\$ 29,622,386</u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$1,373,941, \$1,283,170, and \$1,219,144, respectively, and equal 100% of the required contributions for each year.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$390,542, \$369,009, and \$349,687, respectively, and equal 100% of the required contributions for each year.

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. The District and participating employees are both required to contribute 6.2% of employee gross earnings.

NOTE 13 - 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 California State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$812,762 to CalSTRS (5.204% of creditable compensation subject to CalSTRS).

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013-14, 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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

NOTE 16 - ECONOMIC DEPENDENCY

During the year, the District received \$2,727,336 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 17 - 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 18 - RESTATEMENT OF NET POSITION

In accordance with the provisions of GASB 65, the beginning net position balance has been restated to reflect the write-off of unamortized debt issuance costs. The effect of the restatement on the current year financial statements is as follows:

	<u>Statement of Activities</u>
Net Position - July 1, 2013 (as originally stated)	\$ 27,275,975
Overstatement of Unamortized Debt Issuance Cost	<u>(1,174,229)</u>
Net Position - July 1, 2013 (as restated)	<u>\$ 26,101,746</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 19 - RECLASSIFICATION OF FUND BALANCES

The beginning fund balances of General Fund and Deferred Maintenance Fund have been combined for financial reporting purposes in accordance with GASB Statement 54:

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>
Fund Balances - July 1, 2013 (as originally stated)	\$ 9,287,403	\$ 510,637
Reclassification of Fund Balances	<u>510,637</u>	<u>(510,637)</u>
Fund Balances - July 1, 2013 (as restated)	<u>\$ 9,798,040</u>	<u>\$ 0</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 5, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements, except as described below.

General Obligation Refunding Bonds

On October 21, 2014, the District issued \$17,210,000 of general obligation refunding bonds for purposes of refunding \$16,650,000 of the District's outstanding 2001 Series C General Obligation Bonds, maturing on and after August 1, 2015, and to pay costs of issuance of the Bonds. The refunding bonds were issues to take advantage of the current lower interest rates, which will ultimately result in a decreased tax burden for the individuals 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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 542,754	\$ 634,920	\$ 634,920	
Local Sources	19,616,253	20,451,781	20,451,781	
Total LCFF Sources	20,159,007	21,086,701	21,086,701	
Federal Revenue	459,442	406,167	406,167	
Other State Revenue	980,049	1,532,603	1,532,603	
Other Local Revenue	6,367,530	7,408,506	7,408,506	
Total Revenues	27,966,028	30,433,977	30,433,977	
<u>Expenditures</u>				
Certificated Salaries	14,854,485	15,569,629	15,569,629	
Classified Salaries	3,929,110	3,731,223	3,731,223	
Employee Benefits	5,077,373	4,965,373	4,965,373	
Books and Supplies	1,198,582	1,362,180	1,362,180	
Services and Other				
Operating Expenditures	2,587,522	3,004,778	3,004,778	
Debt Service:				
Principal Retirement	48,301	48,301	48,301	
Interest and Fiscal Charges	5,019	5,019	5,019	
Other Expenditures	125,590	72,696	72,696	
Total Expenditures	27,825,982	28,759,199	28,759,199	
Excess of Revenues Over Expenditures	140,046	1,674,778	1,674,778	
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	9,000	23,220	23,220	
Operating Transfers Out		(2,840,000)	(2,840,000)	
Total Other Financing Sources (Uses)	9,000	(2,816,780)	(2,816,780)	
Net Change in Fund Balances	149,046	(1,142,002)	(1,142,002)	\$ 0
Fund Balances - July 1, 2013 (As Reclassified - Note 19)	9,798,040	9,798,040	9,798,040	
Fund Balances - June 30, 2014	\$ 9,947,086	\$ 8,656,038	\$ 8,656,038	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**LOS GATOS UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Cafeteria</u>	<u>Capital Facilities</u>	<u>Measure B - Building</u>	<u>Total Non-Major Governmental Funds</u>
<u>Assets</u>				
Deposits and Investments	\$ 20,337	\$ 1,506,741	\$ 51,407	\$ 1,578,485
Receivables	32,143	1,306		33,449
Due from Other Funds	10,000			10,000
Total Assets	<u>\$ 62,480</u>	<u>\$ 1,508,047</u>	<u>\$ 51,407</u>	<u>\$ 1,621,934</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts Payable	\$ 4,799	\$ 79,705	\$ 51,407	\$ 135,911
Unearned Revenue	22,967			22,967
Total Liabilities	<u>27,766</u>	<u>79,705</u>	<u>51,407</u>	<u>158,878</u>
Fund Balances:				
Restricted	26,251	1,428,342		1,454,593
Assigned	8,463			8,463
Total Fund Balances	<u>34,714</u>	<u>1,428,342</u>	<u>0</u>	<u>1,463,056</u>
Total Liabilities and Fund Balances	<u>\$ 62,480</u>	<u>\$ 1,508,047</u>	<u>\$ 51,407</u>	<u>\$ 1,621,934</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**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, 2014**

	<u>Cafeteria</u>	<u>Capital Facilities</u>	<u>Measure B - Building</u>	<u>Total Non-Major Governmental Funds</u>
<u>Revenues</u>				
Federal Revenue	\$ 65,243			\$ 65,243
State Revenue	2,446			2,446
Local Revenue	537,439	\$ 778,338		1,315,777
Total Revenues	<u>605,128</u>	<u>778,338</u>		<u>1,383,466</u>
<u>Expenditures</u>				
Food Services	648,218			648,218
Total Expenditures	<u>648,218</u>	<u>0</u>		<u>648,218</u>
Excess of Revenues Over (Under) Expenditures	<u>(43,090)</u>	<u>778,338</u>		<u>735,248</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	40,000			40,000
Operating Transfers Out		(23,220)		(23,220)
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>(23,220)</u>		<u>16,780</u>
Net Change in Fund Balances	(3,090)	755,118		752,028
Fund Balances - July 1, 2013	<u>37,804</u>	<u>673,224</u>	<u>\$ 0</u>	<u>711,028</u>
Fund Balances - June 30, 2014	<u>\$ 34,714</u>	<u>\$ 1,428,342</u>	<u>\$ 0</u>	<u>\$ 1,463,056</u>

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<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>
7/1/12	\$ 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%
4/1/10	0	4,156,381	4,156,381	0%	16,158,561	25.7%

SEE NOTES TO SUPPLEMENTARY INFORMATION

**LOS GATOS UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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>
Scott Broomfield	President	December, 2014
Leigh-Anne Marcellin	Clerk	December, 2016
Kathleen Bays	Member	December, 2014
Emi Eto	Member	December, 2016
Tina Orsi-Hartigan	Member	December, 2014

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, 2014

	P-2 Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular	1,275.09	1,120.85	768.83	3,164.77
Extended Year - Special Education	0.82	0.31	0.45	1.58
Special Education - Nonpublic	0.18	0.08	1.89	2.15
Extended Year - Nonpublic			0.39	0.39
Totals	1,276.09	1,121.24	771.56	3,168.89

	Annual Report			
	TK / K - 3	4 - 6	7 - 8	Total
Regular	1,278.22	1,121.25	769.02	3,168.49
Extended Year - Special Education	0.82	0.31	0.45	1.58
Special Education - Nonpublic	0.31	0.07	1.80	2.18
Extended Year - Nonpublic			0.39	0.39
Totals	1,279.35	1,121.63	771.66	3,172.64

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Grade Level</u>	<u>Minutes Required</u>	<u>Adjusted Minutes Required</u>	<u>2013-14 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
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	54,133	180	N/A	In Compliance
Grade 7	54,000	52,500	54,133	180	N/A	In Compliance
Grade 8	54,000	52,500	54,133	180	N/A	In Compliance

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<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	\$ 53,216
School Basic Breakfast	10.553	13525	12,027
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I - Basic Grant	84.010	14329	36,396
NCLB: Title II - Improving Teacher Quality	84.367	14341	43,991
NCLB: Title III - Immigrant Education	84.365	15146	10,359
Passed through NW SELPA #3:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	295,397
IDEA Part B Preschool Grants	84.173	13430	6,347
IDEA Part B Preschool Local Entitlement	84.027A	13682	13,628
IDEA Part B Preschool Staff Development	84.173A	13431	49
Total			<u>\$ 471,410</u>

**LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	Deferred Maintenance Fund	Special Revenue - Special Reserve Fund	Measure E - Building Fund
June 30, 2014 Annual Financial and Budget Report Fund Balances	\$ 6,443,013	\$ 12,717	\$ 2,200,308	\$ 1,029,598
Adjustments and Reclassifications Increasing (Decreasing) Fund Balances:				
Understatement of Capital Outlay Expenditures Reclassification of Fund Balances	2,213,025	(12,717)	(2,200,308)	(113,609)
June 30, 2014 Audited Financial Statements Fund Balances	<u>\$ 8,656,038</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 915,989</u>

Auditor's Comments

The fund balances of General Fund, Deferred Maintenance Fund, and Special Revenue - Special Reserve Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

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, 2014.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND			
	(Budget) * 2014-15	2013-14 **	2012-13 ***	2011-12 ***
Revenues and Other Financial Sources	\$ 29,126,776	\$ 30,457,197	\$ 31,355,460	\$ 27,772,661
Expenditures	29,307,878	28,759,199	28,241,200	25,967,613
Other Uses and Transfers Out	15,000	2,840,000	3,015,000	0
Total Outgo	29,322,878	31,599,199	31,256,200	25,967,613
Change in Fund Balance	(196,102)	(1,142,002)	99,260	1,805,048
Ending Fund Balance	\$ 8,459,936	\$ 8,656,038	\$ 9,798,040	\$ 9,698,780
Available Reserves	\$ 4,302,638	\$ 4,277,011	\$ 7,774,698	\$ 5,892,480
Reserve for Economic Uncertainties ****	\$ 4,302,638	\$ 4,277,011	\$ 4,688,430	\$ 1,817,733
Available Reserves as a Percentage of Total Outgo	14.7%	13.5%	24.9%	22.7%
Average Daily Attendance at P-2	3,227	3,169	3,099	3,012
Total Long-Term Liabilities	\$ 101,858,566	\$ 106,811,654	\$ 111,434,519	\$ 99,941,868

* The amounts reported for the 2014-15 budget are presented for analytical purposes only and have not been audited.

** Amounts have been adjusted to ensure comparability with the current year GASB 54 financial statement presentation.

*** Prior year balances have been adjusted to ensure comparability with the current year GASB Statement No. 54 financial statement presentation.

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

The fund balance of the General Fund has decreased \$1,042,742 (10.75%) over the past two years. The fiscal year 2014-15 budget projects a decrease of \$196,102 (2.27%). 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 fund balance of the General Fund decreased \$1,142,002 during fiscal year 2013-14, and increased \$1,805,048 and \$99,260 during fiscal years 2011-12 and 2012-13, respectively.

Average daily attendance has increased 157 ADA over the past two years. The District projects an increase of 58 ADA during fiscal year 2014-15.

Total long-term liabilities have increased \$6,869,786 over the past two years.

**LOS GATOS UNION SCHOOL DISTRICT
MEASURE E PARCEL TAX
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Prior Fiscal Years</u>	<u>Current Fiscal Year</u>	<u>Inception To Date</u>
<u>Revenues</u>			
Parcel Tax Proceeds, Net	<u>\$13,306,912</u>	<u>\$ 2,727,336</u>	<u>\$16,034,248</u>
Total Revenues	<u>13,306,912</u>	<u>2,727,336</u>	<u>16,034,248</u>
<u>Expenditures</u>			
Salaries and Benefits	13,243,085	2,712,290	15,955,375
Supplies	7,096	6,035	13,131
Travel	18,341	3,362	21,703
Services	<u>38,045</u>	<u>5,994</u>	<u>44,039</u>
Total Expenditures	<u>13,306,567</u>	<u>2,727,681</u>	<u>16,034,248</u>
Net Change in Fund Balances	345	(345)	<u>\$ 0</u>
Fund Balances - Beginning	<u>0</u>	<u>345</u>	
Fund Balances - Ending	<u>\$ 345</u>	<u>\$ 0</u>	

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

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 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.

E. 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.

F. 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*.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

G. 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.

H. 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.

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

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14* for the fiscal year ended June 30, 2014.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14, 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 in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time for School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance For Charter Schools	8	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform tests for the independent study program because the ADA claimed by the District does not exceed the threshold that requires testing.

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, 2014.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 5, 2014

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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, 2014, 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 5, 2014.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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*.

We noted other matters involving internal control and its operation that we have communicated to management of Los Gatos Union School District in a separate letter dated December 5, 2014.

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 5, 2014

FINDINGS AND QUESTIONED COSTS SECTION

LOS GATOS UNION SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

State Awards

Internal control over state programs:			
Material weaknesses identified?	_____ Yes	_____ X _____	No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ X _____	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, 2014**

FINANCIAL SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to report for the fiscal year ended June 30, 2014.

**LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2014.

**LOS GATOS UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARD</u>		
13 - 1 / 70000		
SIGNIFICANT DEFICIENCY		
<u>INSTRUCTIONAL MATERIALS FUNDING REALIGNMENT PROGRAM</u>		
The District should establish appropriate procedures to ensure that the public hearing notice is posted at least 10 days prior to the public hearing. In addition, the District should contact the Santa Clara County Office of Education to determine how to resolve this issue without being required to return the funding to the California Department of Education (CDE).	Implemented	