

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

AUDIT REPORT

JUNE 30, 2019

LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2019

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LOS GATOS UNION SCHOOL DISTRICT

JUNE 30, 2019

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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, 2019, 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, 2019, 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 management's discussion and analysis, the budgetary comparison information, schedule of changes in net OPEB liability and related ratios, schedule of OPEB contributions, schedule of OPEB investment returns, schedules of the proportionate share of the net pension liabilities, and schedules of contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019 on our consideration of 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 solely 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 the effectiveness of the Los Gatos Union School District's 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 6, 2019

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(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, 2019. 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 14 and 15, 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 16 through 19, 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 a trustee or agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status continued to strengthen during the course of the year as net position increased 10%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$597,087.
- Due to the current level of allocated property tax revenues, the District continues to be funded under the Basic Aid Provision.
- Net capital assets decreased \$3,409,209 due to the current year acquisition and construction of \$1,063,085 of new capital assets and improvements, and the current year recognition of \$4,472,294 of depreciation expense.
- Total long-term liabilities decreased \$4,470,021 during the current year due to decreases in the District's outstanding general obligation bonds and its net OPEB liability.
- The District's P-2 average daily attendance (ADA) decreased from 3,053 ADA in fiscal year 2017-18, down to 2,929 ADA in fiscal year 2018-19, a decrease of 124 ADA, or 4.1%.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2018-19, General Fund expenditures and other financing uses totaled \$42,011,720. At June 30, 2019, the District had available reserves of \$7,641,501 in the General Fund, which represents a reserve of 18.2%.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(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.
 - ❖ 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, 2019**

(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 all amounts presented represent governmental activities since the District does not provide any services that should be categorized as business-type 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.

Reporting the District's Most Significant Funds

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

Governmental Funds:

The major governmental funds of Los Gatos Union School District are the General Fund, Bond Interest and Redemption Fund, and Capital Projects - Special Reserve Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Fiduciary Funds:

The District is the trustee, or 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, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The District's total net position increased from \$5,953,009 at June 30, 2018, up to \$6,550,096 at June 30, 2019, an increase of 10%.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2018	2019
<u>Assets</u>		
Deposits and Investments	\$ 20,901,829	\$ 21,363,813
Receivables	981,449	1,113,011
Prepaid Expenses	34,738	47,098
Capital Assets, net	107,628,264	104,219,055
Total Assets	129,546,280	126,742,977
<u>Deferred Outflows of Resources</u>		
OPEB Deferrals	268,763	146,266
Pension Deferrals	11,919,339	11,753,369
Bond Refunding	2,494,183	2,285,317
Total Deferred Outflows of Resources	14,682,285	14,184,952
<u>Liabilities</u>		
Current	7,503,260	6,873,897
Long-term	127,358,294	122,722,282
Total Liabilities	134,861,554	129,596,179
<u>Deferred Inflows of Resources</u>		
OPEB Deferrals	64,470	1,673,124
Pension Deferrals	3,349,532	3,108,530
Total Deferred Inflows of Resources	3,414,002	4,781,654
<u>Net Position</u>		
Net Investment in Capital Assets	21,973,306	22,838,174
Restricted	7,422,072	7,685,848
Unrestricted (Deficit)	(23,442,369)	(23,973,926)
Total Net Position	\$ 5,953,009	\$ 6,550,096
<i>Table includes financial data of the combined governmental funds.</i>		

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

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(PREPARED BY DISTRICT MANAGEMENT)**

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

The District's total current year revenues exceeded total current year expenses by \$597,087.

<u>Comparative Statement of Changes in Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
<u>Program Revenues</u>		
Charges for Services	\$ 471,590	\$ 497,873
Operating Grants & Contributions	5,290,444	6,804,240
<u>General Revenues</u>		
Taxes Levied	39,265,711	41,627,661
Federal & State Aid	1,831,424	1,856,651
Interest & Investment Earnings	223,714	282,795
Transfers from Other Agencies	63,707	67,850
Miscellaneous	584,276	567,181
Total Revenues	<u>47,730,866</u>	<u>51,704,251</u>
<u>Expenses</u>		
Instruction	29,306,332	31,885,296
Instruction-Related Services	3,929,176	4,400,830
Pupil Services	3,356,145	3,434,042
General Administration	3,434,601	3,358,107
Plant Services	4,380,671	5,022,797
Interest on Long-Term Debt	2,984,746	2,820,655
Other Outgo	183,509	185,437
Total Expenses	<u>47,575,180</u>	<u>51,107,164</u>
Changes in Net Position	<u>\$ 155,686</u>	<u>\$ 597,087</u>
<i>Table includes financial data of the combined governmental funds.</i>		

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**
(PREPARED BY DISTRICT MANAGEMENT)

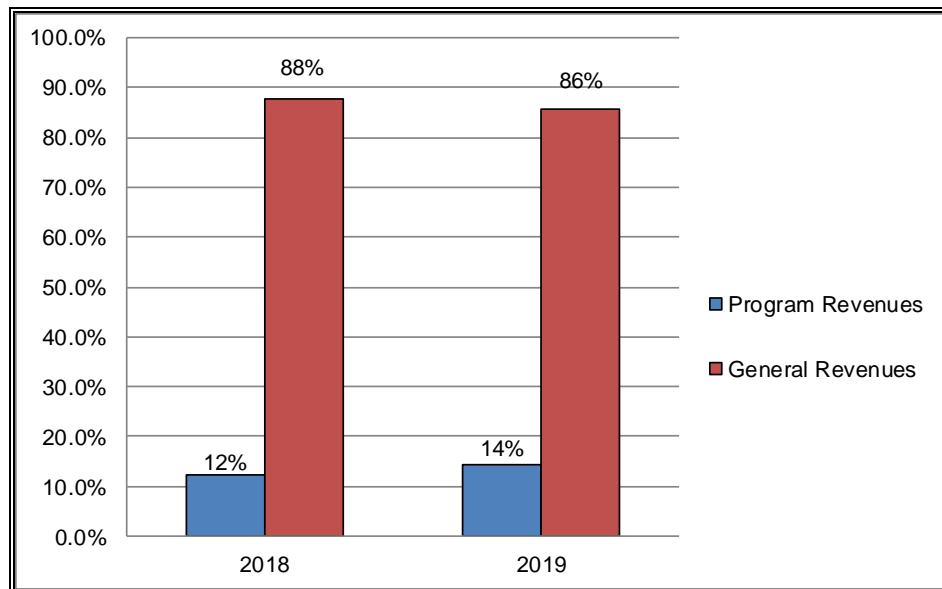
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Comparative Schedule of Costs of Services

	Total Cost of Services		Net Cost of Services	
	2018	2019	2018	2019
Instruction	\$ 29,306,332	\$ 31,885,296	\$ 26,644,269	\$ 27,833,883
Instruction-Related Services	3,929,176	4,400,830	3,807,066	4,121,256
Pupil Services	3,356,145	3,434,042	2,598,479	2,504,084
General Administration	3,434,601	3,358,107	3,406,349	3,251,795
Plant Services	4,380,671	5,022,797	3,837,924	4,926,863
Other Expenses	3,168,255	3,006,092	1,519,059	1,167,170
Totals	<u>\$ 47,575,180</u>	<u>\$ 51,107,164</u>	<u>\$ 41,813,146</u>	<u>\$ 43,805,051</u>

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 \$43,805,051 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



During fiscal year 2018-19, program revenues financed 14% of the total cost of providing the services listed above, while the remaining 86% 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, 2019**
(PREPARED BY DISTRICT MANAGEMENT)

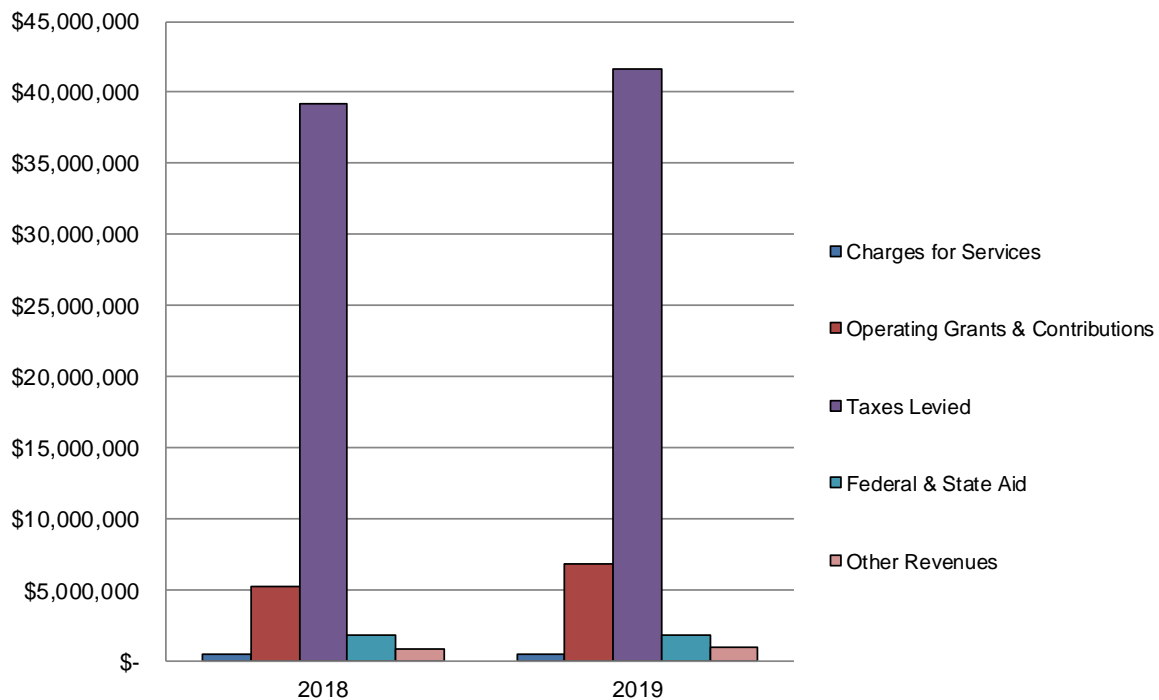
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Summary of Revenues For Governmental Functions

	<u>FYE 2018 Amount</u>	<u>Percent of Total</u>	<u>FYE 2019 Amount</u>	<u>Percent of Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 471,590	0.99%	\$ 497,873	0.96%
Operating Grants & Contributions	5,290,444	11.08%	6,804,240	13.16%
<u>General Revenues</u>				
Taxes Levied	39,265,711	82.26%	41,627,661	80.51%
Federal & State Aid	1,831,424	3.84%	1,856,651	3.59%
Other Revenues	871,697	1.83%	917,826	1.78%
Total Revenues	<u>\$ 47,730,866</u>	<u>100.00%</u>	<u>\$ 51,704,251</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds.

Comparative Revenues



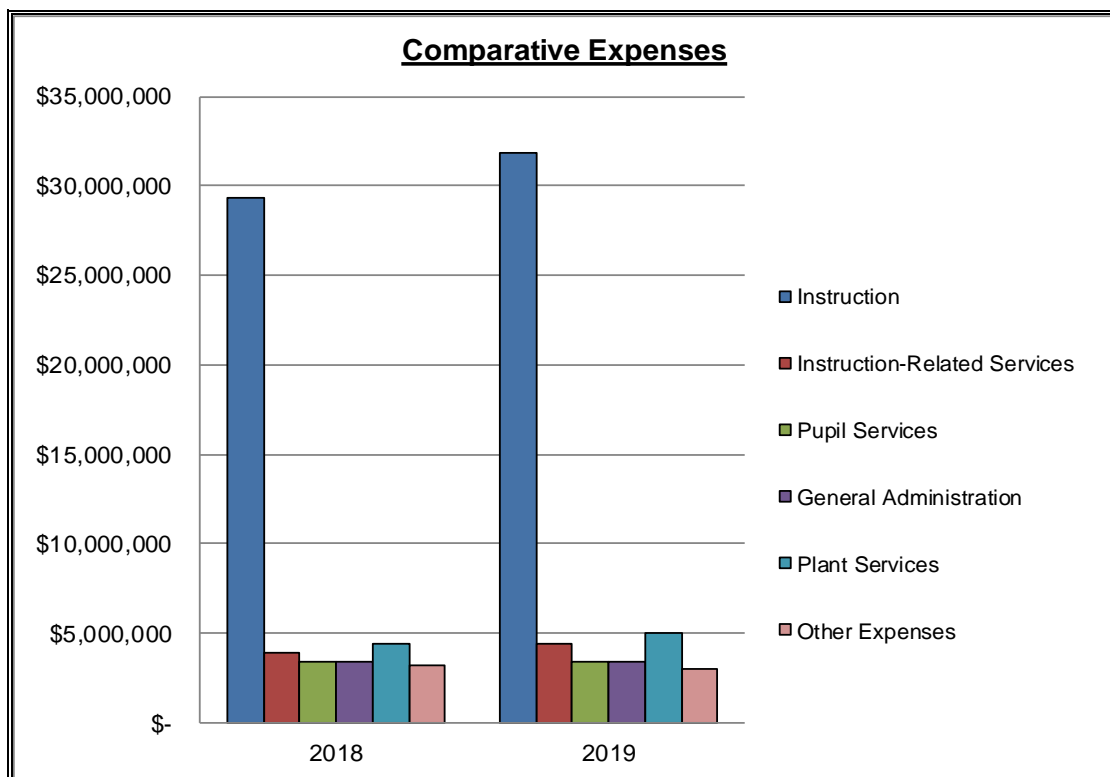
**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**
(PREPARED BY DISTRICT MANAGEMENT)

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

Summary of Expenses For Governmental Functions

	FYE 2018 Amount	Percent of Total	FYE 2019 Amount	Percent of Total
<u>Expenses</u>				
Instruction	\$ 29,306,332	61.60%	\$ 31,885,296	62.39%
Instruction-Related Services	3,929,176	8.26%	4,400,830	8.61%
Pupil Services	3,356,145	7.05%	3,434,042	6.72%
General Administration	3,434,601	7.22%	3,358,107	6.57%
Plant Services	4,380,671	9.21%	5,022,797	9.83%
Other Expenses	3,168,255	6.66%	3,006,092	5.88%
Total Expenses	<u>\$ 47,575,180</u>	<u>100.00%</u>	<u>\$ 51,107,164</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, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

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

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2018	2019
Land	\$ 241,224	\$ 241,224
Sites and Improvements	1,214,417	4,913,812
Buildings and Improvements	156,085,568	156,546,648
Furniture and Equipment	619,923	626,129
Construction-in-Progress	3,118,818	0
Subtotals	161,279,950	162,327,813
Less: Accumulated Depreciation	(53,651,686)	(58,108,758)
Capital Assets, net	<u>\$ 107,628,264</u>	<u>\$ 104,219,055</u>

Net capital assets decreased \$3,409,209 due to the current year acquisition of \$1,063,085 of new capital assets and improvements, and the current year recognition of \$4,472,294 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2018	2019
Compensated Absences	\$ 96,236	\$ 142,227
General Obligation Bonds	85,175,000	80,975,000
Bond Premium	2,974,141	2,691,198
Net OPEB Liability	3,696,844	2,072,195
Net Pension Liabilities	39,995,252	41,586,832
Totals	<u>\$ 131,937,473</u>	<u>\$ 127,467,452</u>

Total long-term liabilities decreased \$4,470,021 during the current year due to decreases in the District's obligations related to general obligation bonds and its net OPEB liability. The general obligation bonds are financed by the local taxpayers and represent 63.5% 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.

**LOS GATOS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2018	Fund Balances June 30, 2019	Increase (Decrease)
General	\$ 10,132,229	\$ 11,622,085	\$ 1,489,856
Bond Interest & Redemption	6,197,801	6,359,761	161,960
Capital Projects - Special Reserve	3,474,241	2,908,248	(565,993)
Cafeteria	(3,838)	751	4,589
Capital Facilities	443,651	690,346	246,695
Totals	<u>\$ 20,244,084</u>	<u>\$ 21,581,191</u>	<u>\$ 1,337,107</u>

The fund balance of the General Fund increased \$1,489,856, and the combined fund balances of all other District governmental funds decreased \$152,749.

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 Revised figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The employer contribution rates for CalSTRS and CalPERS will continue to increase on an annual basis for the near future. In addition, the economy has finished its tenth year of expansion, lasting five years longer than the average recovery. The Governor and Department of Finance continue to urge the Legislature and local governments, including local education agencies, to plan for the next recession.

Accordingly, the District's budget should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 21,363,813
Receivables (Note 3)	1,113,011
Prepaid Expenses (Note 1H)	47,098
Capital Assets, Not Depreciated (Note 5)	241,224
Capital Assets, Net of Accumulated Depreciation	103,977,831
Total Assets	126,742,977
<u>Deferred Outflows of Resources</u>	
OPEB Deferrals (Note 7)	146,266
Pension Deferrals (Note 8)	11,753,369
Bond Refunding	2,285,317
Total Deferred Outflows of Resources	14,184,952
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	566,265
Accrued Interest Payable	1,185,996
Unearned Revenue (Note 1H)	376,466
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1H)	142,227
General Obligation Bonds	
Current Interest	4,320,000
Bond Premium	282,943
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 6)	
Current Interest	76,655,000
Bond Premium	2,408,255
Net OPEB Liability (Note 7)	2,072,195
Net Pension Liabilities (Note 8)	41,586,832
Total Liabilities	129,596,179
<u>Deferred Inflows of Resources</u>	
OPEB Deferrals (Note 7)	1,673,124
Pension Deferrals (Note 8)	3,108,530
Total Deferred Inflows of Resources	4,781,654
<u>Net Position</u>	
Net Investment in Capital Assets	22,838,174
Restricted:	
For Capital Projects	704,434
For Debt Service	5,173,765
For Educational Programs	1,757,000
For Other Purposes	50,649
Unrestricted (Deficit)	(23,973,926)
Total Net Position	\$ 6,550,096

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, 2019

					Net (Expense) Revenue and Changes in Net Position
		Program Revenues			
			Operating Grants and Contributions	Capital Grants and Contributions	
Functions	Expenses	Charges for Services			Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 31,885,296		\$ 4,051,413		\$ (27,833,883)
Instruction-Related Services:					
Supervision of Instruction	913,452		56,303		(857,149)
Instructional Library and Technology	378,478		12,210		(366,268)
School Site Administration	3,108,900		211,061		(2,897,839)
Pupil Services:					
Home-to-School Transportation	116,885		1,215		(115,670)
Food Services	843,144	\$ 497,873	84,512		(260,759)
Other Pupil Services	2,474,013		346,358		(2,127,655)
General Administration:					
Data Processing Services	1,061,737		23,686		(1,038,051)
Other General Administration	2,296,370		82,626		(2,213,744)
Plant Services	5,022,797		95,934		(4,926,863)
Ancillary Services	398		95		(303)
Interest on Long-Term Debt	2,820,655				(2,820,655)
Other Outgo	185,039		1,838,827		1,653,788
Total Governmental Activities	<u>\$ 51,107,164</u>	<u>\$ 497,873</u>	<u>\$ 6,804,240</u>	<u>\$ 0</u>	<u>(43,805,051)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					29,401,855
Taxes Levied for Debt Service					7,099,114
Taxes Levied for Specific Purposes					5,126,692
Federal and State Aid - Unrestricted					1,856,651
Interest and Investment Earnings					282,795
Transfers from Other Agencies					67,850
Miscellaneous					567,181
Total General Revenues					<u>44,402,138</u>
Change in Net Position					597,087
Net Position - July 1, 2018					<u>5,953,009</u>
Net Position - June 30, 2019					\$ 6,550,096

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LOS GATOS UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Bond Interest and Redemption	Capital Projects - Special Reserve	Non-Major Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Deposits and Investments (Note 2)	\$ 11,335,737	\$ 6,339,274	\$ 2,892,185	\$ 796,617	\$ 21,363,813
Receivables (Note 3)	1,059,276	20,487	16,063	17,185	1,113,011
Prepaid Expenditures (Note 1H)	47,098				47,098
Total Assets	<u>\$ 12,442,111</u>	<u>\$ 6,359,761</u>	<u>\$ 2,908,248</u>	<u>\$ 813,802</u>	<u>\$ 22,523,922</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 524,116			\$ 42,149	\$ 566,265
Unearned Revenue (Note 1H)	295,910			80,556	376,466
Total Liabilities	<u>820,026</u>			<u>122,705</u>	<u>942,731</u>
Fund Balances: (Note 10)					
Nonspendable	49,898				49,898
Restricted	1,757,000	\$ 6,359,761	\$ 14,088	691,097	8,821,946
Assigned	2,173,686		2,894,160		5,067,846
Unassigned	7,641,501				7,641,501
Total Fund Balances	<u>11,622,085</u>	<u>6,359,761</u>	<u>2,908,248</u>	<u>691,097</u>	<u>21,581,191</u>
Total Liabilities and Fund Balances	<u>\$ 12,442,111</u>	<u>\$ 6,359,761</u>	<u>\$ 2,908,248</u>	<u>\$ 813,802</u>	<u>\$ 22,523,922</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balances - Governmental Funds	\$ 21,581,191
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Amounts reported for governmental activities in the statement of net position are different from amounts reported in governmental funds due to the following:

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

Capital Assets	\$ 162,327,813	
Accumulated Depreciation	(58,108,758)	
Net		104,219,055

Deferred outflows and inflows of resources relating to other post employment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources relating to other post employment benefits are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to other post employment benefits are reported. Net deferred outflows and deferred inflows are:	(1,526,858)
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Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. Net deferred outflows and deferred inflows are:	8,644,839
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Unamortized costs: In governmental funds, any gain or loss that results from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from refunding, reported as deferred outflows of resources, was:	2,285,317
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Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owed at the end of the period was:	(1,185,996)
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Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

Compensated Absences	\$ 142,227	
General Obligation Bonds	80,975,000	
Bond Premium	2,691,198	
Net OPEB Liability	2,072,195	
Net Pension Liabilities	41,586,832	
		(127,467,452)

Total Net Position - Governmental Activities	\$ 6,550,096
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Capital Projects - Special Reserve</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
LCFF Sources:					
State Apportionment / Transfers	\$ 732,792				\$ 732,792
Local Taxes	29,401,855				29,401,855
Total LCFF Sources	30,134,647				30,134,647
Federal Revenue	657,584	\$ 172,154		\$ 52,821	882,559
State Revenue	4,797,252	19,305		1,801	4,818,358
Local Revenue	7,912,093	7,129,386	\$ 64,105	763,103	15,868,687
Total Revenues	43,501,576	7,320,845	64,105	817,725	51,704,251
<u>Expenditures</u>					
Current:					
Instruction	28,165,052				28,165,052
Supervision of Instruction	785,706				785,706
Instructional Library and Technology	278,279				278,279
School Site Administration	2,638,660				2,638,660
Home-To-School Transportation	106,017				106,017
Food Services	11,355			718,441	729,796
Other Pupil Services	2,163,012				2,163,012
Data Processing Services	879,654				879,654
Other General Administration	1,951,477				1,951,477
Plant Services	4,290,107				4,290,107
Facilities Acquisition and Construction	404,964		630,098		1,035,062
Ancillary Services	398				398
Other Outgo	185,039				185,039
Debt Service:					
Principal Retirement		4,200,000			4,200,000
Interest and Issuance Costs		2,958,885			2,958,885
Total Expenditures	41,859,720	7,158,885	630,098	718,441	50,367,144
Excess of Revenues Over (Under) Expenditures	1,641,856	161,960	(565,993)	99,284	1,337,107
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In				152,000	152,000
Operating Transfers Out	(152,000)				(152,000)
Total Other Financing Sources (Uses)	(152,000)	0	0	152,000	0
Net Change in Fund Balances	1,489,856	161,960	(565,993)	251,284	1,337,107
Fund Balances - July 1, 2018	10,132,229	6,197,801	3,474,241	439,813	20,244,084
Fund Balances - June 30, 2019	\$ 11,622,085	\$ 6,359,761	\$ 2,908,248	\$ 691,097	\$ 21,581,191

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Governmental Funds **\$ 1,337,107**

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

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

Capital Outlays	\$	1,063,085	
Depreciation Expense		(4,472,294)	
Net			(3,409,209)

Pension liabilities: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual-basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (1,516,548)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned during the fiscal year. The difference between amounts paid and amounts earned was: (45,991)

Post employment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs accrued and employer contributions was: (106,502)

Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as Other Financing Sources or Other Financing Uses in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. The net premiums, discount, or gain or loss on debt refunding activities and the amortization for the period are: 74,077

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: 4,200,000

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest expense is recognized in the period that it is incurred. Unmatured interest owed at the end of the period, less matured interest paid during the period but owed from the prior period, was: 64,153

Change in Net Position of Governmental Activities **\$ 597,087**

LOS GATOS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 11,419	\$ 11,419
Total Assets	11,419	11,419
<u>Liabilities</u>		
Due to Student Groups	11,419	11,419
Total Liabilities	11,419	11,419
<u>Net Position</u>		
Restricted	0	0
Total Net Position	\$ 0	\$ 0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

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

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

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District.

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

C. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

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

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

Unearned Revenue:

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

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Fund Accounting

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

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

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

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

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

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

Major Governmental Funds:

General Fund is the general operating fund of the District.

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

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

Non-major Governmental Funds:

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

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

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 Raymond J. Fisher Middle School. The student body funds are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Board of Trustees and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 55.

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

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Encumbrances

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

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

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Concluded)

The 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. 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 prepaid expenses/expenditures are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

3. Capital Assets

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

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Deferred Outflows/Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

5. 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.

6. 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.

7. Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the District's OPEB Plan, and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and interest earning investment contracts that have a maturity of one year or less, which are reported at cost.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Pensions

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

9. Long-term Liabilities

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

10. Fund Balances

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

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

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

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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

10. Fund Balances (Concluded)

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.

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

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

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

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks	\$ 10,000	\$ 11,419
Cash in Revolving Fund	2,800	
County Pool Investments	<u>21,351,013</u>	
Totals	<u><u>\$ 21,363,813</u></u>	<u><u>\$ 11,419</u></u>

Cash on Hand and in Banks

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

Cash in Revolving Fund

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

County Pool Investments

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

General Authorization

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Santa Clara County investment pool.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 21,351,013	\$ 21,410,091	436

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. Investments in the County Treasury are not required to be rated.

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 Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balance was not exposed to custodial credit risk.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specific term, a Level 2 input is required to be observable for substantially the full term of the asset.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Fair Value Measurements (Concluded)

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Santa Clara County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
County Pool Investments	<u>\$ 21,410,091</u>	<u>\$ 21,410,091</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2019 consist of the following:

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Capital Projects - Special Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 593,452			\$ 12,680	\$ 606,132
State Government	54,456			241	54,697
Local Governments	55,881				55,881
Interest	70,228	\$ 20,487	\$ 16,063	4,264	111,042
Miscellaneous	<u>285,259</u>				<u>285,259</u>
Totals	<u>\$ 1,059,276</u>	<u>\$ 20,487</u>	<u>\$ 16,063</u>	<u>\$ 17,185</u>	<u>\$ 1,113,011</u>

NOTE 4 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - INTERFUND ACTIVITIES (CONCLUDED)

Interfund Transfers

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

Interfund transfers for fiscal year 2018-19 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 152,000
Cafeteria	\$ 152,000	
Totals	<u>\$ 152,000</u>	<u>\$ 152,000</u>

Transfer from General Fund to Cafeteria Fund to supplement the child nutrition program.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, is shown below:

	<u>Balances July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2019</u>
Capital Assets Not Being Depreciated:				
Land	\$ 241,224			\$ 241,224
Construction-in-Progress	3,118,818	\$ 1,063,085	\$ 4,181,903	0
Total Capital Assets Not Being Depreciated	<u>3,360,042</u>	<u>1,063,085</u>	<u>4,181,903</u>	<u>241,224</u>
Capital Assets Being Depreciated:				
Sites and Improvements	1,214,417	3,699,395		4,913,812
Buildings and Improvements	156,085,568	461,080		156,546,648
Furniture and Equipment	619,923	21,428	15,222	626,129
Total Capital Assets Being Depreciated	<u>157,919,908</u>	<u>4,181,903</u>	<u>15,222</u>	<u>162,086,589</u>
Less Accumulated Depreciation:				
Sites and Improvements	652,270	234,385		886,655
Buildings and Improvements	52,513,623	4,211,791		56,725,414
Furniture and Equipment	485,793	26,118	15,222	496,689
Total Accumulated Depreciation	<u>53,651,686</u>	<u>4,472,294</u>	<u>15,222</u>	<u>58,108,758</u>
Total Capital Assets Being Depreciated, Net	<u>104,268,222</u>	<u>(290,391)</u>	<u>0</u>	<u>103,977,831</u>
Governmental Activities Capital Assets, Net	<u>\$ 107,628,264</u>	<u>\$ 772,694</u>	<u>\$ 4,181,903</u>	<u>\$ 104,219,055</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 2,964,599
Instruction-Related Services	409,176
Pupil Services	319,287
General Administration	312,227
Plant Services	467,005
Total	<u>\$ 4,472,294</u>

NOTE 6 - GENERAL OBLIGATION BONDS

The general obligation bonds are secured by the full faith and credit of the District. Santa Clara County is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the bonds upon all property subject to taxation in the District.

As of June 30, 2019, the outstanding general obligation debt of the District, excluding \$2,691,198 of unamortized bond premiums, is as follows:

Date of Issue	Interest Rate %	Date of Maturity	Amount of Original Issue	Outstanding July 1, 2018	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2019
12/18/03	3.00-5.00	8/1/30	\$ 25,000,000	\$ 550,000		\$ 550,000	\$ 0
10/19/11	2.00-4.75	8/1/26	28,190,000	18,710,000		2,015,000	16,695,000
5/25/11	2.00-4.75	8/1/35	11,360,000	5,760,000			5,760,000
5/25/11	3.25-5.10	8/1/25	4,340,000	4,190,000		400,000	3,790,000
12/20/11	3.20	8/1/30	22,220,000	20,590,000		230,000	20,360,000
11/27/12	2.00-4.00	8/1/37	15,200,000	8,435,000		355,000	8,080,000
10/21/14	2.00-5.00	8/1/32	17,210,000	15,885,000		370,000	15,515,000
12/17/15	2.00-5.00	8/1/32	11,390,000	11,055,000		280,000	10,775,000
Totals			<u>\$ 134,910,000</u>	<u>\$ 85,175,000</u>	<u>\$ 0</u>	<u>\$ 4,200,000</u>	<u>\$ 80,975,000</u>

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2019, are as follows:

Year Ended June 30	Principal	Interest	Totals
2020	\$ 4,320,000	\$ 2,782,909	\$ 7,102,909
2021	4,470,000	2,609,134	7,079,134
2022	4,635,000	2,427,419	7,062,419
2023	4,815,000	2,249,978	7,064,978
2024	4,985,000	2,060,251	7,045,251
2025-2029	27,635,000	7,272,613	34,907,613
2030-2034	26,015,000	2,576,079	28,591,079
2035-2039	4,100,000	260,143	4,360,143
Totals	<u>\$ 80,975,000</u>	<u>\$ 22,238,526</u>	<u>\$ 103,213,526</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The District's defined benefit plan, Los Gatos Union School District's Other Post Employment Benefits Plan (Plan), is a single employer defined benefit health care plan administered by the District. The Plan does not issue stand-alone financial report.

Plan Description/Benefits Provided

The Plan provides medical, dental and vision coverage to employees who retire from active status with a specified minimum age and years of service, and who are eligible for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). Following is a description of the current retiree benefit plan. Management benefit follow those for the applicable unit:

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

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

Employees hired after June 30, 2010 are not eligible for this Plan.

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

Employees Covered by Benefit Terms

The number of employees covered by the benefit terms of the Plan as of June 30, 2018 are as follows:

Inactive employees currently receiving benefit payments	12
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	133
Total number of participants	<u>145</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB Trust

During fiscal year 2009-10, the District joined Self Insured Schools of California (SISC) GASB 45 Trust A, which was established to provide governmental agencies an investment mechanism for pre-funding future OPEB costs. SISC is an agent multiple-employer (51 agencies) plan as defined in GASB 74 with pooled administrative and investment functions. The Trust is administered by SISC. SISC issues a publicly available financial report that includes 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.

Management of the Trust is vested in the SISC III Health and Welfare Benefits Program Board of Directors. As of June 30, 2019, the board had 26 members, who are elected from and by representatives of SISC III member districts.

OPEB Plan Investments: The Trust's investment policy required that the investment portfolio be well diversified to avoid undue exposure to any single economic sector, industry group, individual fund, or market segment. By actively investing in suitable retirement trust funds with a proven performance record, the investment portfolio focuses on growth and income through a balanced-type account of equities and fixed income, while reducing the effects of interest rate and market volatility. Assets shall only be invested in funds approved by the SISC Board and Administration. Funds may also be invested with California Local Agency Investment Fund and the County Treasury. The following was the Board of Director's adopted asset allocation policy as of June 30, 2018:

Target Asset Allocation: State statutes and Board policies allow investments in government and domestic debt, domestic, equities, mutual funds and other investments. Trust A's policy in regard to the allocation of invested assets is established and may be amended by the SISC III Board of Directors by a majority vote of its members. It is the policy of the SISC III Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. Plan assets are managed on a total return basis. The policy is reviewed on an annual basis, and the SISC III Board of Directors must approve any modification made thereto.

Trust A's investment policy restricts the investment allocation of the plan. It is the guideline of the plan that assets will not exceed a maximum allocation percentage by category of: equities - 70%, fixed income - 70% and non-correlating assets - 20%. It is also understood that from time to time, this will fluctuate in either direction and can be rebalanced due to market conditions.

Rate of Return: For fiscal years ended June 30, 2017 and June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 12.05% and 8.39%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Net OPEB Liability

The District's net OPEB liability of \$2,072,195 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that same date.

Actuarial Assumptions

The total OPEB liability was determined using a financial reporting actuarial valuation as of June 30, 2018, which used the following actuarial methods and assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Inflation	2.75%
Salary Increases	3.00%
Investment Rate of Return	6.50%, based on long-term return on plan assets
Health Care Cost Trend Rates	Medical premiums assumed to increase 4.5% in 2020, and 4% for all later years. Dental, vision, and life premiums are assumed to increase 4% per year.

Mortality rates were based on the 2017 CalPERS experience study (for classified employees) and from the 2016 valuation of CalSTRS (certificated, management, and confidential employees).

Retirement rates were based on the 2017 CalPERS experience study (for classified employees) and from the 2016 valuation of CalSTRS (certificated, management, and confidential employees).

Turnover rates were based on the 2017 CalPERS experience study (for classified employees) and from the 2016 valuation of CalSTRS (certificated, management, and confidential employees).

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class for the year ended June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	40%	7.795%
US Small Cap	20%	7.795%
Long-Term Corporate Bonds	25%	5.295%
Long-Term Government Bonds	10%	4.500%
Short-Term Government Fixed	5%	3.250%
Total	<u>100%</u>	

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances - Beginning of Year	\$ 5,370,197	\$ 1,673,353	\$ 3,696,844
Changes for the year:			
Service cost	223,890		223,890
Interest on total OPEB liability	339,256		339,256
Differences between expected and actual experience	(1,428,857)		(1,428,857)
Changes in assumptions or other inputs	(319,614)		(319,614)
OPEB plan net investment income		139,310	(139,310)
Benefit payments	(301,757)		(301,757)
OPEB plan administrative expenses		(1,743)	1,743
Net changes	(1,487,082)	137,567	(1,624,649)
Balances - End of Year	\$ 3,883,115	\$ 1,810,920	\$ 2,072,195

There were no changes in benefit terms since the July 1, 2016 valuation. The assumed probabilities of retirement, termination, and mortality have been changed to the 2017 CalPERS and 2016 CalSTRS rates. The discount rate has been changed from 7.00% to 6.50%.

Sensitivity of the District's Net OPEB Liability to Changes in the Discount Rate

The following table presents the District's net OPEB liability as of the measurement date, calculated using the current discount rate of 6.50%, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	Discount Rate 1% Decrease 5.50%	Discount Rate Current Rate 6.50%	Discount Rate 1% Increase 7.50%
District's net OPEB liability	\$ 2,424,586	\$ 2,072,195	\$ 1,754,312

Sensitivity of the District's Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following table presents the District's net OPEB liability as of the measurement date, calculated using the current health care cost trend rate of 4.00% to 5.00%, as well as what the District's net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower (3.00% to 4.00%) or one percentage point higher (5.00% to 6.00%) than the current rate:

	Health Care Cost Trend Rate 3.00% to 4.00%	Health Care Cost Trend Rate 4.00% to 5.00%	Health Care Cost Trend Rate 5.00% to 6.00%
District's net OPEB liability	\$ 1,687,074	\$ 2,072,195	\$ 2,514,450

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$285,764. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 146,266	
Differences between expected and actual experience		\$ 1,307,767
Changes of assumptions		292,528
Net differences between projected and actual earnings on OPEB plan investments		72,829
Totals	<u>\$ 146,266</u>	<u>\$ 1,673,124</u>

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended June 30	
2020	\$ (170,413)
2021	(170,413)
2022	(170,413)
2023	(154,295)
2024	(148,176)
Thereafter	(859,414)

Differences between expected and actual experience and changes of assumptions are amortized over a closed period equal to the average remaining service life of plan members. Deferred outflows and inflows related to differences between projected and actual earnings on OPEB plan investments are netted and amortized over a closed 5-year period.

NOTE 8 - RETIREMENT PLANS

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

The District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense in the accompanying government-wide financial statements as follows:

Pension Plan	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 32,507,013	\$ 9,174,431	\$ 3,087,969	\$ 6,657,014
CalPERS	9,079,819	2,578,938	20,561	2,156,252
Totals	<u>\$ 41,586,832</u>	<u>\$ 11,753,369</u>	<u>\$ 3,108,530</u>	<u>\$ 8,813,266</u>

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits Provided

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

The STRP Defined Benefit Program has two benefit formulas:

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

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

Benefits Provided (Concluded)

CalSTRS 2% at 60

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

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

CalSTRS 2% at 62

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

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

Contributions

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

Contributions (Concluded)

Members: Pursuant to AB 1469, the CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2018-19. Under CalSTRS 2% at 62, the member contribution rate was 10.205% of applicable member earnings for fiscal year 2018-19.

Employers: Pursuant to AB 1469, the employer contribution rate was 16.28% of applicable members earnings for fiscal year 2018-19. The District contributed \$3,120,754 to the plan for the fiscal year ended June 30, 2019.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2019 was 5.311%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 9.828% for the fiscal year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the District was as follows:

District's proportionate share of the net pension liability	\$ 32,507,013
State's proportionate share of the net pension liability associated with the District	<u>18,611,785</u>
Total net pension liability attributed to District	<u><u>\$ 51,118,798</u></u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers and the State.

The District's proportionate share of the net pension liability as of June 30, 2018 and June 30, 2017 was as follows:

Proportion - June 30, 2018	0.0354%
Proportion - June 30, 2017	<u>0.0346%</u>
Change - Increase (Decrease)	<u><u>0.0008%</u></u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

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

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$6,657,014, which includes \$2,967,248 of support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 3,120,754	
Differences between expected and actual experience	98,680	\$ 469,348
Changes of assumptions	4,943,375	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	1,011,622	1,358,062
Net differences between projected and actual earnings on plan investments		1,260,559
Totals	<u>\$ 9,174,431</u>	<u>\$ 3,087,969</u>

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2020	\$ 991,404
2021	501,300
2022	(312,175)
2023	517,786
2024	1,189,446
2025	77,947

Differences between expected and actual experience, changes of assumptions, and changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2018. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following methods and assumptions:

Valuation Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

¹ Net of investment expenses, but gross of administrative expenses.

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases of life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions.

Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Methods and Assumptions (Concluded)

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash / Liquidity	2%	-1.00%
Total	<u>100%</u>	

* 20-year average

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers are made at statutory contribution rates as previously described. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the District's proportionate share of the net pension liability as of the measurement date, calculated using the current discount rate of 7.10%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

	<u>Discount Rate 1% Decrease 6.10%</u>	<u>Discount Rate Current Rate 7.10%</u>	<u>Discount Rate 1% Increase 8.10%</u>
District's proportionate share of the net pension liability	\$ 47,618,970	\$ 32,507,013	\$ 19,977,734

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

Pension Plan's Fiduciary Net Position

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

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 7.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2019 was 18.062% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2019 was \$900,904.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

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

As of June 30, 2019, the District reported a liability of \$9,079,819 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2018 and June 30, 2017 was as follows:

Proportion - June 30, 2018	0.0341%
Proportion - June 30, 2017	<u>0.0334%</u>
Change - Increase (Decrease)	<u><u>0.0007%</u></u>

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$2,156,252, which includes \$307,812 of support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 900,904	
Differences between expected and actual experience	595,043	
Changes of assumptions	891,494	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	129,015	\$ 20,561
Net differences between projected and actual earnings on plan investments	<u>62,482</u>	
Totals	<u><u>\$ 2,578,938</u></u>	<u><u>\$ 20,561</u></u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

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

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2020	\$ 951,946
2021	736,771
2022	22,349
2023	(53,593)

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2018. The net difference between projected and actual earnings on pension plan investments is amortized over a 5-year period on a straight-line basis.

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Wage Growth	Varies
Investment Rate of Return	7.15%
Post Retirement Benefit Increase (1)	

(1) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions (Concluded)

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

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study from 1997 to 2015. Further details of the experience study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments were applied to all periods of projected benefit payments to determine the total pension liability.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11 + years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONCLUDED)

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

Discount Rate (Concluded)

<u>Asset Class (1)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 (2)</u>	<u>Real Return Years 11+ (3)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100%		

(1) In the CalPERS CAFR, fixed income is included in global debt securities; liquidity is included in short-term investments; inflation assets are included in both global equity securities and global debt securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	<u>Discount Rate 1% Decrease 6.15%</u>	<u>Discount Rate Current Rate 7.15%</u>	<u>Discount Rate 1% Increase 8.15%</u>
District's proportionate share of the net pension liability	\$ 13,219,782	\$ 9,079,819	\$ 5,645,127

Pension Plan Fiduciary Net Position

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

C. Social Security

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities is shown below:

	Balances July 1, 2018	Additions	Deductions	Balances June 30, 2019	Due within One Year
Long-Term Debt:					
General Obligation Bonds	\$ 85,175,000		\$ 4,200,000	\$ 80,975,000	\$ 4,320,000
Bond Premium	2,974,141		282,943	2,691,198	282,943
Other Long-Term Liabilities:					
Compensated Absences	96,236	\$ 142,227	96,236	142,227	142,227
Net OPEB Liability	3,696,844		1,624,649	2,072,195	
Net Pension Liabilities	39,995,252	1,591,580		41,586,832	
Totals	<u>\$ 131,937,473</u>	<u>\$ 1,733,807</u>	<u>\$ 6,203,828</u>	<u>\$ 127,467,452</u>	<u>\$ 4,745,170</u>

The general obligation bonds and bond premium are obligations of the Bond Interest and Redemption Fund. All other long-term liabilities are primarily obligations of the General Fund.

NOTE 10 - FUND BALANCES

The fund balances as of June 30, 2019 are as follows:

	General Fund	Bond Interest and Redemption Fund	Capital Projects - Special Reserve Fund	Non-Major Governmental Funds	Totals
Nonspendable:					
Revolving Cash	\$ 2,800				\$ 2,800
Prepaid Expenditures	47,098				47,098
Total Nonspendable	<u>49,898</u>				<u>49,898</u>
Restricted:					
Categorical Programs	733,314		\$ 14,088		747,402
Local Programs	1,023,686				1,023,686
Food Service Program				\$ 751	751
Capital Projects				690,346	690,346
Debt Service		\$ 6,359,761			6,359,761
Total Restricted	<u>1,757,000</u>	<u>6,359,761</u>	<u>14,088</u>	<u>691,097</u>	<u>8,821,946</u>
Assigned:					
Deferred Maintenance Projects	1,495,584				1,495,584
Board Specified Assignments	661,228				661,228
Special Reserve	16,874				16,874
Capital Projects			2,894,160		2,894,160
Total Assigned	<u>2,173,686</u>	<u>0</u>	<u>2,894,160</u>	<u>0</u>	<u>5,067,846</u>
Unassigned:					
Reserve for Economic Uncertainties	7,641,501				7,641,501
Total Unassigned	<u>7,641,501</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,641,501</u>
Totals	<u>\$ 11,622,085</u>	<u>\$ 6,359,761</u>	<u>\$ 2,908,248</u>	<u>\$ 691,097</u>	<u>\$ 21,581,191</u>

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 11 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) for K-12 Education. These payments consist of state general fund contributions of \$2,967,248 to CalSTRS and \$307,812 to CalPERS.

NOTE 12 - 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 2018-19, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years.

NOTE 13 - JOINT VENTURE

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

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

NOTE 14 - ECONOMIC DEPENDENCY

During the year, the District received \$2,715,925 of parcel tax revenue that is subject to voter approval. The parcel tax revenue is used to support various programs of the District and has been approved through June 30, 2022.

NOTE 15 - 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.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

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 16 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 6, 2019, 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.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 731,681	\$ 753,537	\$ 732,792	\$ (20,745)
Local Sources	28,766,511	29,553,697	29,401,855	(151,842)
Total LCFF Sources	29,498,192	30,307,234	30,134,647	(172,587)
Federal Revenue	652,793	653,714	657,584	3,870
Other State Revenue	3,276,817	4,666,908	4,797,252	130,344
Other Local Revenue	6,786,043	7,464,471	7,912,093	447,622
Total Revenues	40,213,845	43,092,327	43,501,576	409,249
<u>Expenditures</u>				
Current:				
Certificated Salaries	19,564,669	19,222,139	19,547,795	(325,656)
Classified Salaries	4,740,312	4,887,592	4,957,112	(69,520)
Employee Benefits	9,284,738	10,751,961	10,856,768	(104,807)
Books and Supplies	1,893,296	2,233,072	1,568,980	664,092
Services and Other				
Operating Expenditures	4,217,444	4,948,360	4,664,546	283,814
Capital Outlay	313,640	339,310	79,480	259,830
Other Expenditures			185,039	(185,039)
Total Expenditures	40,014,099	42,382,434	41,859,720	522,714
Excess of Revenues Over Expenditures	199,746	709,893	1,641,856	931,963
<u>Other Financing (Uses)</u>				
Operating Transfers Out	(100,000)	(111,000)	(152,000)	(41,000)
Net Change in Fund Balances	99,746	598,893	1,489,856	\$ 890,963
Fund Balances - July 1, 2018	10,132,229	10,132,229	10,132,229	
Fund Balances - June 30, 2019	\$ 10,231,975	\$ 10,731,122	\$ 11,622,085	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS *

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 223,890	\$ 217,369
Interest on Total OPEB Liability	339,256	325,834
Differences Between Expected and Actual Experience	(1,428,857)	
Changes in Assumptions or Other Inputs	(319,614)	
Benefit Payments	<u>(301,757)</u>	<u>(371,673)</u>
Net Change in Total OPEB Liability	(1,487,082)	171,530
Total OPEB Liability - Beginning	<u>5,370,197</u>	<u>5,198,667</u>
Total OPEB Liability - Ending	<u><u>\$ 3,883,115</u></u>	<u><u>\$ 5,370,197</u></u>
 Plan Fiduciary Net Position		
Net Investment Income	\$ 139,310	\$ 177,846
Administrative Expenses	<u>(1,743)</u>	<u>(1,555)</u>
Net Change in Plan Fiduciary Net Position	137,567	176,291
Plan Fiduciary Net Position - Beginning	<u>1,673,353</u>	<u>1,497,062</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 1,810,920</u></u>	<u><u>\$ 1,673,353</u></u>
 District's Net OPEB Liability - Ending	\$ 2,072,195	\$ 3,696,844
 Plan Fiduciary Net Position as a % of Total OPEB Liability	46.64%	31.16%
 Covered-employee Payroll	\$ 12,351,278	\$ 13,529,823
 District's Net OPEB Liability as a % of Covered-employee Payroll	16.78%	27.32%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end reporting date. This is a 10-year schedule, however prior valuations were not rerun in accordance with GASB 75 and are therefore not presented. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The District OPEB plan does not currently have any actuarially determined, contracted, or statutorily required contribution requirements.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF OPEB INVESTMENT RETURNS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Year Ended June 30</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expenses</u>
2019	8.39%
2018	12.05%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT

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

JUNE 30, 2019

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2019	0.0354%	\$ 32,507,013	\$ 18,611,785	\$ 51,118,798	\$ 18,827,665	172.66%	70.99%
2018	0.0346%	32,020,631	18,943,135	50,963,766	18,350,700	174.49%	69.46%
2017	0.0337%	27,280,304	20,198,164	47,478,468	16,809,553	162.29%	70.04%
2016	0.0370%	24,883,701	15,833,342	40,717,043	17,155,383	145.05%	74.02%
2015	0.0370%	21,600,157	14,439,417	36,039,574	16,463,491	131.20%	76.52%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT

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

JUNE 30, 2019

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2019	0.0341%	\$ 9,079,819	\$ 4,491,681	202.15%	70.85%
2018	0.0334%	7,974,621	4,259,778	187.21%	71.87%
2017	0.0330%	6,510,083	3,954,503	164.62%	73.90%
2016	0.0335%	4,938,281	3,709,031	133.14%	79.43%
2015	0.0321%	3,644,414	3,369,962	108.14%	83.38%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS - CALSTRS *

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions As a % of Covered Payroll</u>
2019	\$ 3,120,754	\$ 3,120,754	\$ 0	\$ 19,169,251	16.28%
2018	2,706,496	2,706,496	0	18,756,036	14.43%
2017	2,345,800	2,345,800	0	18,647,059	12.58%
2016	1,832,761	1,832,761	0	17,080,718	10.73%
2015	1,503,642	1,503,642	0	16,932,905	8.88%

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

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS - CALPERS *

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions As a % of Covered Payroll</u>
2019	\$ 900,904	\$ 900,904	\$ 0	\$ 4,987,842	18.062%
2018	698,176	698,176	0	4,495,371	15.531%
2017	591,254	591,254	0	4,257,301	13.888%
2016	468,913	468,913	0	3,958,074	11.847%
2015	436,551	436,551	0	3,708,699	11.771%

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

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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. The basis of budgeting is the same as Generally Accepted Accounting Principles (GAAP).

Excess of expenditures over appropriations in the General Fund as of June 30, 2019 were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Certificated Salaries	\$ 325,656
Classified Salaries	69,520
Employee Benefits	104,807
Other Expenditures	185,039

The District incurred unanticipated expenditures in the expenditure classifications above for which the budget was not revised.

B. Schedule of Changes in Net OPEB Liability and Related Ratios

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, the District is required to present a 10-year schedule including certain information for each OPEB plan. The information required to be presented includes certain components that make up the changes in the net OPEB liability, the total OPEB liability, the OPEB plan's fiduciary net position, the net OPEB liability, the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, the covered-employee payroll, and the net OPEB liability as a percentage of the District's covered-employee payroll.

C. Schedule of OPEB Contributions

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, the District is required to present a 10-year schedule including certain information for each OPEB plan. The information required to be presented includes the actuarial determined contribution, the amount of contributions recognized by the OPEB plan in relation to the actuarial determined contribution, the difference between the actuarial determined contribution and the amount recognized by the OPEB plan, the District's covered-employee payroll, and the amount of contributions recognized by the OPEB plan in relation to the actuarial determined contribution as a percentage of the District's covered-employee payroll. The OPEB plan does not have any actuarially determined, statutorily or contracted required contributions.

D. Schedule of OPEB Investment Returns

In accordance with Governmental Accounting Standards Board Statement No. 74, the District is required to present a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year.

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

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

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

F. Schedule of Contributions

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

NOTE 2 - SUMMARY OF CHANGES FOR OPEB

Benefit Terms

There have been no significant changes to benefit terms since the prior valuation.

Changes in Assumptions or Other Inputs

The discount rate changed from 7.0% at July 1, 2016 to 6.5% at June 30, 2018. The assumed probabilities of retirement, termination, and mortality have been changed to the 2017 CalPERS and 2016 CalSTRS rates.

NOTE 3 - SUMMARY OF CHANGES FOR CALSTRS AND CALPERS

Benefit Terms

There were no changes to benefit terms since the prior valuation for the State Teachers' Retirement Plan (CalSTRS) or the Public Employer's Retirement Fund B (CalPERS).

Changes in Assumptions

During fiscal year 2017-18, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. As a result of the study, CalPERS also changed the following assumption used in determining the NPL as follows:

<u>Assumption</u>	<u>As of June 30, 2018</u>	<u>As of June 30, 2017</u>
Inflation	2.50%	2.75%

There were no changes in assumptions since the previous valuation for CalSTRS.

SUPPLEMENTARY INFORMATION SECTION

LOS GATOS UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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>
John Huntzmann	President	December, 2022
Daniel Snyder	Clerk	December, 2020
Peter Noymer	Member	December, 2022
Courtney Monk	Member	December, 2022
Stephen Parsons	Member	December, 2020

ADMINISTRATION

Paul Johnson
Superintendent

Marla Rodriguez
Interim Superintendent

Terese McNamee
Chief Business Official

**LOS GATOS UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Cafeteria	Capital Facilities	Total Non-Major Governmental Funds
<u>Assets</u>			
Deposits and Investments	\$ 94,382	\$ 702,235	\$ 796,617
Receivables	13,337	3,848	17,185
Total Assets	<u>\$ 107,719</u>	<u>\$ 706,083</u>	<u>\$ 813,802</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 26,412	\$ 15,737	\$ 42,149
Unearned Revenue	80,556		80,556
Total Liabilities	<u>106,968</u>	<u>15,737</u>	<u>122,705</u>
Fund Balances:			
Restricted	751	690,346	691,097
Total Fund Balances	<u>751</u>	<u>690,346</u>	<u>691,097</u>
Total Liabilities and Fund Balances	<u>\$ 107,719</u>	<u>\$ 706,083</u>	<u>\$ 813,802</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**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, 2019**

	Cafeteria	Capital Facilities	Total Non-Major Governmental Funds
<u>Revenues</u>			
Federal Revenue	\$ 52,821		\$ 52,821
State Revenue	1,801		1,801
Local Revenue	516,408	\$ 246,695	763,103
	<u>571,030</u>	<u>246,695</u>	<u>817,725</u>
Total Revenues			
<u>Expenditures</u>			
Current:			
Food Services	718,441		718,441
	<u>718,441</u>	<u>0</u>	<u>718,441</u>
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	(147,411)	246,695	99,284
<u>Other Financing Sources</u>			
Operating Transfers In	152,000		152,000
Net Change in Fund Balances	4,589	246,695	251,284
Fund Balances (Deficit) - July 1, 2018	(3,838)	443,651	439,813
Fund Balances - June 30, 2019	<u>\$ 751</u>	<u>\$ 690,346</u>	<u>\$ 691,097</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

P-2 Report				
	TK / K - 3	4 - 6	7 - 8	Total
Regular ADA	1,025.80	1,074.06	821.87	2,921.73
Extended Year - Special Education	1.02	0.28	0.84	2.14
Nonpublic School	1.84		2.60	4.44
Extended Year - NPS / LCI	0.27		0.51	0.78
Totals	<u>1,028.93</u>	<u>1,074.34</u>	<u>825.82</u>	<u>2,929.09</u>
Annual Report				
	TK / K - 3	4 - 6	7 - 8	Total
Regular ADA	1,030.91	1,074.23	821.02	2,926.16
Extended Year - Special Education	1.02	0.28	0.84	2.14
Nonpublic School	1.84		2.67	4.51
Extended Year - NPS / LCI	0.27		0.51	0.78
Totals	<u>1,034.04</u>	<u>1,074.51</u>	<u>825.04</u>	<u>2,933.59</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	180	N/A	In Compliance
Grade 1	50,400	51,576	180	N/A	In Compliance
Grade 2	50,400	51,576	180	N/A	In Compliance
Grade 3	50,400	51,576	180	N/A	In Compliance
Grade 4	54,000	54,096	180	N/A	In Compliance
Grade 5	54,000	54,096	180	N/A	In Compliance
Grade 6	54,000	56,936	180	N/A	In Compliance
Grade 7	54,000	56,936	180	N/A	In Compliance
Grade 8	54,000	56,936	180	N/A	In Compliance

**LOS GATOS UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	General Fund	Deferred Maintenance Fund	Special Revenue - Special Reserve Fund
June 30, 2019 Annual Financial and Budget Report Fund Balances	\$ 10,109,627	\$ 1,495,584	\$ 16,874
Reclassifications Increasing (Decreasing) Fund Balances:			
Reclassification of Fund Balances	<u>1,512,458</u>	<u>(1,495,584)</u>	<u>(16,874)</u>
June 30, 2019 Audited Financial Statements Fund Balances	<u>\$ 11,622,085</u>	<u>\$ 0</u>	<u>\$ 0</u>

Auditor's Comments

The fund balances of the General Fund, Deferred Maintenance Fund, and Special Revenue - Special Reserve Fund have been combined for financial reporting purposes in accordance with GASB 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, 2019.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	GENERAL FUND			
	(Budget) 2019-20	2018-19	2017-18	2016-17
Revenues and Other Financial Sources	\$ 42,327,754	\$ 43,501,576	\$ 39,612,343	\$ 37,446,418
Expenditures	41,686,351	41,859,720	38,675,114	36,967,162
Other Uses and Transfers Out	150,000	152,000	876,068	1,508,347
Total Outgo	41,836,351	42,011,720	39,551,182	38,475,509
Change in Fund Balance	491,403	1,489,856	61,161	(1,029,091)
Ending Fund Balance	\$ 12,113,488	\$ 11,622,085	\$ 10,132,229	\$ 10,071,068
Available Reserves	\$ 8,566,127	\$ 7,641,501	\$ 6,954,843	\$ 7,203,275
Reserve for Economic Uncertainties *	\$ 8,566,127	\$ 7,641,501	\$ 5,798,200	\$ 5,771,326
Available Reserves as a Percentage of Total Outgo	20.5%	18.2%	17.6%	18.7%
Average Daily Attendance at P-2	2,830	2,929	3,053	3,153
Total Long-Term Liabilities	\$ 122,722,282	\$ 127,467,452	\$ 131,937,473	\$ 130,136,932

* Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$1,551,017 (15.4%) over the past two years. The fiscal year 2019-20 budget projects an increase of \$491,403 (4.2%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit of \$1,029,091 during fiscal year 2016-17, and produced operating surpluses of \$61,161 and \$1,489,856 during fiscal years 2017-18 and 2018-19, respectively.

Average daily attendance (ADA) decreased 224 ADA over the past two years. The District projects a further decrease of 99 ADA during fiscal year 2019-20.

Total long-term liabilities decreased \$2,669,480 over the past two years.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MEASURE B PARCEL TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Prior Fiscal Years</u>	<u>Current Fiscal Year</u>	<u>Inception To Date</u>
<u>Revenues</u>			
Parcel Tax Proceeds, Net	<u>\$ 10,986,270</u>	<u>\$ 2,715,925</u>	<u>\$ 13,702,195</u>
Total Revenues	<u>10,986,270</u>	<u>2,715,925</u>	<u>13,702,195</u>
<u>Expenditures</u>			
Salaries and Benefits	10,912,853	2,873,272	13,786,125
Books and Supplies	78,939	0	78,939
Travel	<u>124</u>	<u>26</u>	<u>150</u>
Total Expenditures	<u>10,991,916</u>	<u>2,873,298</u>	<u>13,865,214</u>
Net Change in Fund Balances	(5,646)	(157,373)	<u><u>\$ (163,019)</u></u>
Fund Balances - Beginning	<u>0</u>	<u>36</u>	
Fund Balances (Deficit) - Ending	<u><u>\$ (5,646)</u></u>	<u><u>\$ (157,337)</u></u>	

SEE NOTES TO SUPPLEMENTARY INFORMATION

LOS GATOS UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Combining Statements

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

B. Schedule of Average Daily Attendance

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

C. Schedule of Instructional Time

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

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

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

E. Schedule of Financial Trends and Analysis

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

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

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Los Gatos Union School District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations 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 *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting (Audit Guide)*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the District's state programs occurred. An audit includes examining, on a test basis, evidence about Los Gatos Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. Our audit does not provide a legal determination of Los Gatos Union School District's compliance with those requirements.

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

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

We did not perform procedures for the independent study program because the average daily attendance 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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with other state laws and regulations, which is described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 2019 - 002**. Our opinion on state compliance on the programs previously identified is not modified with respect to this matter.

District's Response to Finding

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

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2019

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, 2019, 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 6, 2019.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency, as noted in **Finding 2019 - 001**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, except as noted in **Finding 2019-002**.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 6, 2019

FINDINGS AND QUESTIONED COSTS SECTION

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

State Awards

Any audit findings required to be reported in accordance with the <i>2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting?</i>	<u> </u> Yes	<u> X </u> No
Any audit findings required to be reported in accordance with other state laws or regulations?	<u> X </u> Yes	<u> </u> No
Type of auditor's report issued on compliance for state programs:	Unmodified	

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

2019 - 001 / 30000

SIGNIFICANT DEFICIENCY

EMPLOYMENT CONTRACTS

<u>Criteria:</u>	All payroll related transactions should be supported by appropriate documentation, which substantiates that all amounts paid to employees are properly authorized and paid at the correct amounts. In addition, appropriate procedures should be in place to ensure that the documentation maintained is current, accurate and complete.
<u>Condition:</u>	The documentation maintained to support amounts paid to various groups of employees for payroll, stipends, and fringe benefits, is not standardized and does not always specify the individual items or amounts that are being authorized. Certain employee contracts are very detailed and identify the exact items and amounts that are being authorized for payment, while other contracts simply include statements such as "the specified employee shall be afforded at least all of the fringe benefits of employment, which are granted to a specified employee or group of employees". As a result, certain payroll related transactions are easy to substantiate, while others are not. In addition, when individuals who are included in a specified group are paid different amounts, and the specified group is the basis for determining amounts paid to other individuals, the amounts are no longer adequately supported and are subject to interpretation.
<u>Questioned Costs:</u>	None. We have determined through alternative procedures that the amounts paid to individuals selected in our test of controls were paid the correct amounts.
<u>Context:</u>	The condition appears to be limited to individuals who have contracts where the employee is paid based amounts paid to other employees or groups of employees.
<u>Effect:</u>	When standardized documentation procedures are not in place, errors and/or improprieties are more likely to occur and not be detected.
<u>Cause:</u>	The District does not require the use of stand-alone standardized contracts that identify all of the specific terms and amounts that employees will be paid.
<u>Recommendation:</u>	The District should require the use of stand-alone standardized contracts that specify all of the specific terms and amounts that employees will be paid.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

EMPLOYMENT CONTRACTS (CONCLUDED)

District Response:

The District confirms that standard employment contracts were not used consistently. This will be corrected during the current year for all contracted employees and implemented moving forward.

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2019 - 002 / 40000

ROUTINE RESTRICTED MAINTENANCE

<u>Criteria:</u>	<p>Each year, for a period of twenty years after receiving funds through the School Facility Program, districts must deposit into the routine restricted maintenance account a specified percentage of the district's total adopted general fund budget. On June 19, 2015, AB 104 was approved which provided a phase-in of the 3% Routine Restricted Maintenance Account (RRMA) contribution, rather than full restoration of the RRMA contribution in 2015-16 as was previously scheduled to take place under current law. As a result, the minimum amount required to be deposited into the account for fiscal year 2018-19 is the greater of:</p> <ul style="list-style-type: none">(1) the lessor of three (3%) percent of the total general fund expenditures (including other financing uses) for that fiscal year, or the amount that the school district deposited into the account during fiscal year 2014-15.(2) 2% of the total general fund expenditures (including other financing uses)
<u>Condition:</u>	<p>During fiscal year 2018-19, the District deposited \$819,471, into the routine restricted maintenance account (Resource 8150), which is less than the \$1,226,873 required deposit, which is based on (3%) percent of the total general fund expenditures (including other financing uses).</p>
<u>Questioned Costs:</u>	<p>\$407,402. (The additional contribution amount that should have been deposited into the account during fiscal year 2018-19.)</p>
<u>Context:</u>	<p>During fiscal years 2015-16, 2016-17, and 2017-18, the District made excess contributions to the routine restricted maintenance that collectively exceed the 2018-19 contribution shortfall.</p>
<u>Effect:</u>	<p>The District did not comply with the requirements of Education Code 17070.75 during fiscal year 2018-19.</p>
<u>Cause:</u>	<p>The District made an additional contribution to resource 9010 in Fund 50, which rolls up into the General Fund for financial reporting purposes. The funds deposited into this account string are held in a restricted local resource where they are used for purposes of routine restricted maintenance. However, these funds were not properly coded to Resource 8150, and therefore, do not properly document compliance with the routine restricted maintenance contribution requirements.</p>

LOS GATOS UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

ROUTINE RESTRICTED MAINTENANCE (CONCLUDED)

Recommendation: During fiscal year 2019-20, the District should transfer \$407,402 from Resource 9010 to Resource 8150 to correct the 2018-19 routine restricted maintenance contribution. In addition, the District should establish appropriate procedures to ensure that all future routine restricted maintenance contributions are properly coded to Resource 8150.

District Response: The District will transfer \$407,402 from Resource 9010 to Resource 8150 to correct the 2018-19 routine restricted maintenance contribution. In 2019-20 and moving forward, the District will use the locally designated fund and the State designated resource to ensure that the State reporting clearly identifies that the 3% deposit is met.

**LOS GATOS UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
2018 - 001 / 30000		
<u>CASH DISBURSEMENTS</u>		
The District should require all routine purchase to be processed through the District's normal accounts payable procedures. In addition, the District should limit the practice of reimbursing employees for District purchases to extreme situations.	Implemented	