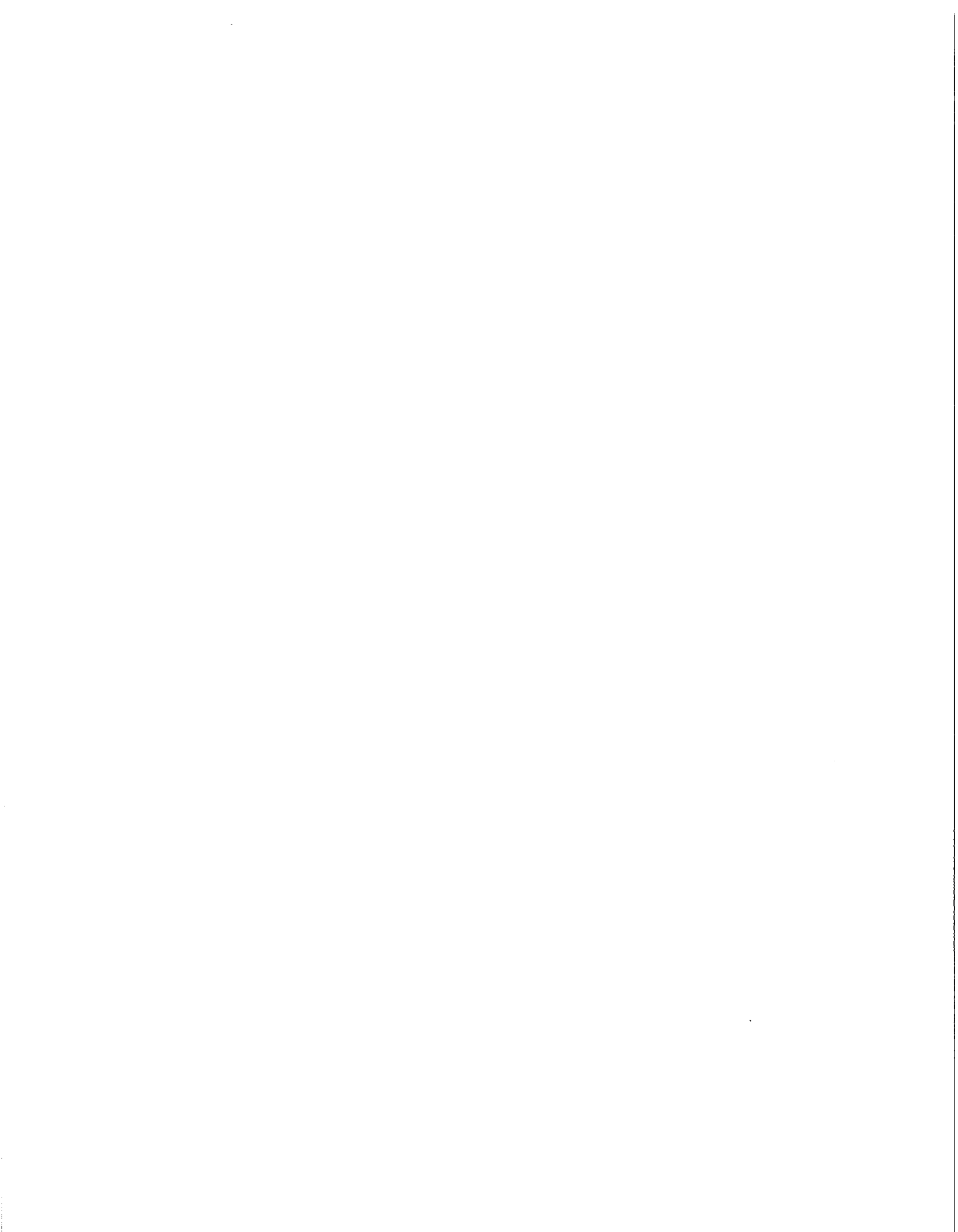


**LOS GATOS-SARATOGA JOINT
UNION HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014



LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

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JUNE 30, 2014

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Los Gatos-Saratoga Joint Union High 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-Saratoga Joint Union High School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. 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-Saratoga Joint Union High School District, as of June 30, 2014, and the respective changes in financial position and thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, management's discussion and analysis and other postemployment benefit schedule of funding progress 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-Saratoga Joint Union High School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, on our consideration of the Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Los Gatos-Saratoga Joint Union High School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 12, 2014

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LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This section of Los Gatos-Saratoga Joint Union High School District's 2013-2014 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

PROFILE OF THE DISTRICT

The Los Gatos-Saratoga Joint Union High School District (the District) was founded in 1887 to provide quality secondary education to the residents of Los Gatos, Monte Sereno, and Saratoga in Santa Clara County and portions of the Santa Cruz mountains area in Santa Cruz County. With a long tradition of academic excellence the District operates two comprehensive high schools that are fully accredited by the Western Association of Schools and Colleges. Every year the District's two campuses – Los Gatos High School (LGHS) and Saratoga High School (SHS) – serve more than 3,160 students. The District also operates an alternative education program, NOVA, an Independent Study Program and coordinates with West Valley Junior College to provide a Middle College program.

The cornerstones of the educational program are a strong focus on academics, establishment of clear goals for students, provisions for comprehensive elective and advanced placement programs, availability of viable alternative and special programs and maintenance of a learning environment characterized by traditional discipline, a highly trained and motivated staff and strong leadership. School scores are exceptionally high with Academic Performance Index ratings of 883 for LGHS and 938 for SHS. By all student achievement measures, District schools are in the top two percent of all high schools in the State. The schools have also been recognized nationally for excellence in academic achievement.

The District has a long-standing and comprehensive strategic planning process that includes annual updating of District goals and the development of educational goals in accordance with the single plan for student achievement and the Local Control Accountability Plan (LCAP). The mission of the District is to maximize the learning of all students. The graduation rate for students is almost 100% and some 98% of all graduates go on to pursue further studies.

The District's students come from an enriching mix of ethnic backgrounds including a sizeable portion of immigrants from Asia, South Asia, and the Middle East. Students prepare to make meaningful, positive contributions to our world. The District takes great pride in its exceptional staff, parent support and student achievement.

FINANCIAL HIGHLIGHTS

A school district is deemed a "Basic Aid District" when the assessed valuation of the district increases to the point where the local property taxes exceed the State's calculated Revenue Limit for the district. The District became Basic Aid in the early 1990's. Property tax revenue is the primary source for all instructional programs and provides the majority of the resources to pay for all operating costs in the General Fund of the District. Because funding relies on assessed valuation, the impact of a recession could have a negative effect upon local property tax revenues of the District. Therefore, we must use caution, and err on the conservative side, in making long-term commitments with District funds.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

The General Fund expenditures per student in 2013-2014 were \$13,195. This was an increase of \$1,015 from last year's per student spending of \$12,180 in 2012-2013.

The 2011-12 year marked the first year of parcel tax income. With the anemic growth in property values and reduction in state categorical money through a basic aid "fair share" reduction, the governing board authorized a parcel tax election on May 3, 2011. The parcel tax passed with a 72 percent passage rate and became effective July 1, 2011. The term of the parcel tax is six years and generated \$948,392 in 2013-2014. The tax is \$49 per parcel per year and a senior citizen exemption is available to seniors 65 years or older. A parcel tax oversight committee comprised of community members ensured that these funds were used for school programs, not for administrative salaries, and in full compliance with voter authorized activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the government-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a display of the District's General Fund budget, both the adopted and final versions, along with a comparison of the final budget with year-end actuals.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like developer fees).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliations between the governmental funds statements and the government-wide statements to better explain the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that those to whom the assets belong use only for their intended purposes and the assets reported in these funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$32,744,170 as of June 30, 2014. This table summarizes the District's net position.

Los Gatos-Saratoga Joint Union High School District			
Net Position			
(in thousands of dollars)			
	Total District <u>2014</u>	Total District <u>2013</u>	Net Change
Assets			
Current and other assets	\$ 15,337	\$ 17,556	\$ (2,219)
Capital assets	72,858	75,684	(2,826)
Total Assets	<u>88,195</u>	<u>93,240</u>	<u>(5,045)</u>
Liabilities			
Liabilities	474	1,589	(1,115)
Long-term debt	54,977	60,248	(5,271)
Total Liabilities	<u>55,451</u>	<u>61,837</u>	<u>(6,386)</u>
Net Position			
Net investment in capital assets	20,218	18,428	1,790
Restricted	8,588	8,345	243
Unrestricted	3,938	4,630	(692)
Total Net Position	<u>\$ 32,744</u>	<u>\$ 31,403</u>	<u>\$ 1,341</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Changes In Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Total revenues surpassed expenses, increasing net position over last year. This table summarizes this information.

Los Gatos-Saratoga Joint Union High School District			
Changes in Net Position			
(in thousands of dollars)			
	Total District <u>2014</u>	Total District <u>2013</u>	Net Change
Revenues			
Program revenues			
Grants & contributions	\$ 2,939	\$ 1,946	\$ 993
Property taxes	44,638	44,132	506
Other federal and state revenue	1,247	749	498
Other general revenues	6,049	4,484	1,565
Total Revenues	<u>54,873</u>	<u>51,311</u>	<u>3,562</u>
Expenses			
Instruction related	33,167	31,081	2,086
Student support services	4,762	4,500	262
Administration	3,086	2,900	186
Maintenance & operations	7,316	6,256	1,060
Other	4,711	4,475	236
Total Expenses	<u>53,042</u>	<u>49,212</u>	<u>3,830</u>
Change in Net Position	<u>\$ 1,831</u>	<u>\$ 2,099</u>	<u>\$ (268)</u>

The District's expenses were primarily related to educating and caring for students, accounting for 71.5% of the total expenses.

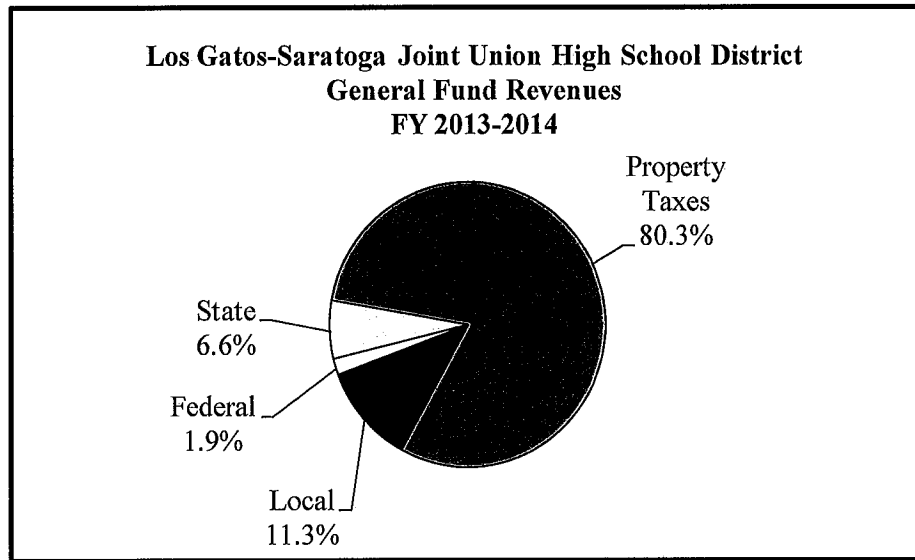
LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S GENERAL FUND

The District is basic aid, which means that the District relies on local property taxes rather than State aid for the majority of its revenue. General Fund revenues for 2013-2014 excluding transactions related to the Special Revenue fund for other than Capital Outlay fund and On Behalf payments, increased by \$3,275,652 (7.95%) over the previous year. Property tax revenues increased by \$428,539 (1.22%). (Note: Other charts are incorporated in Adopted Budget on District Web Page www.lgsuhd.org).

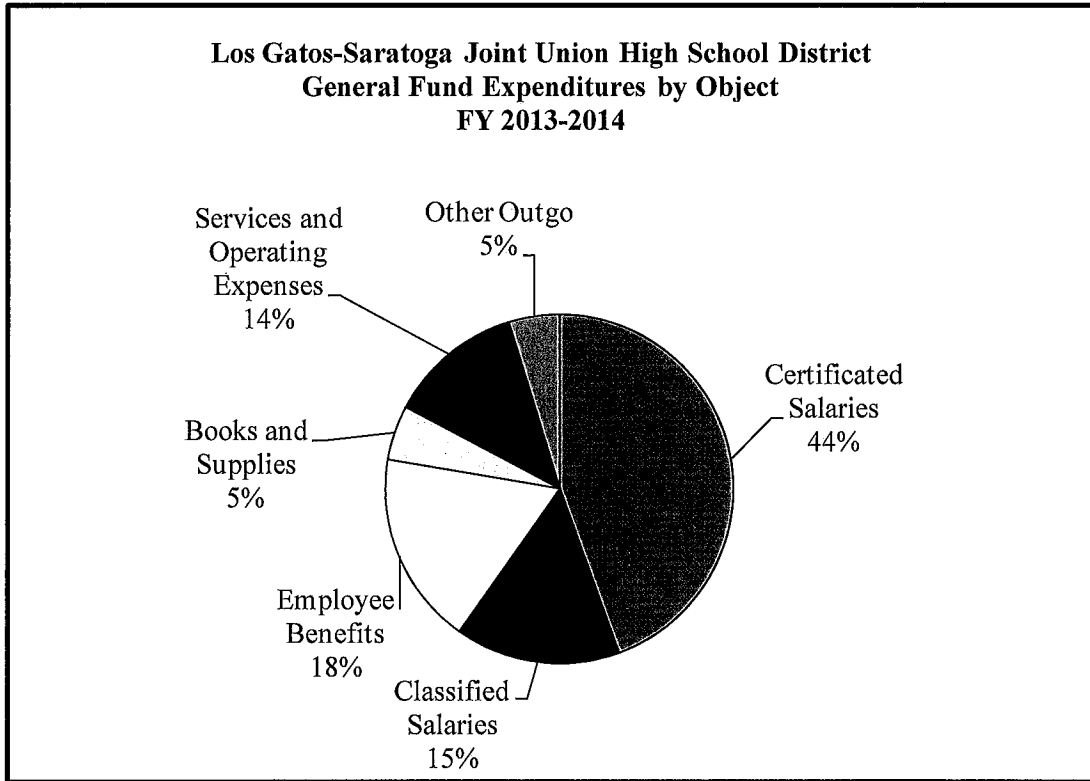


Expenditures increased by 5.86% over the previous year. As is common with virtually all school districts, the majority of expenditures in the General Fund are for salaries and benefits. Of the total amount expended during 2013-2014, 77% was spent on salaries and benefits. See the charts on the next page for a breakdown of General Fund expenditures.

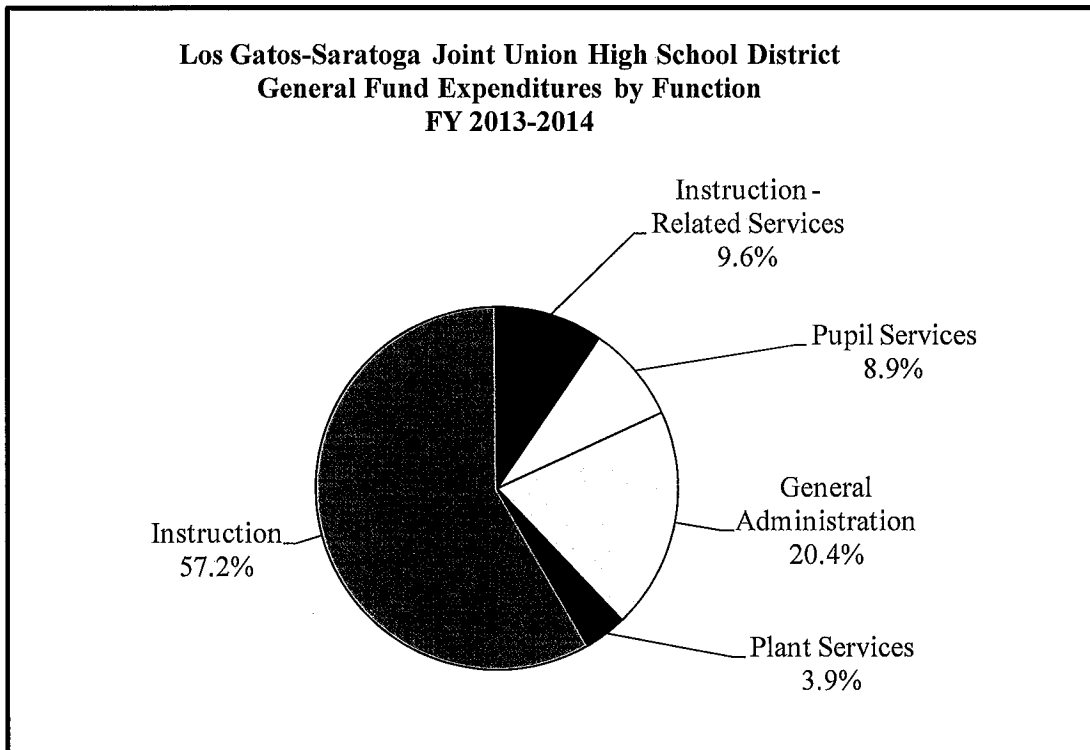
LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014



*Excludes on-behalf payments and Special Reserve Fund for Other than Capital Outlay



*Excludes on-behalf payments and Special Reserve Fund for Other than Capital Outlay

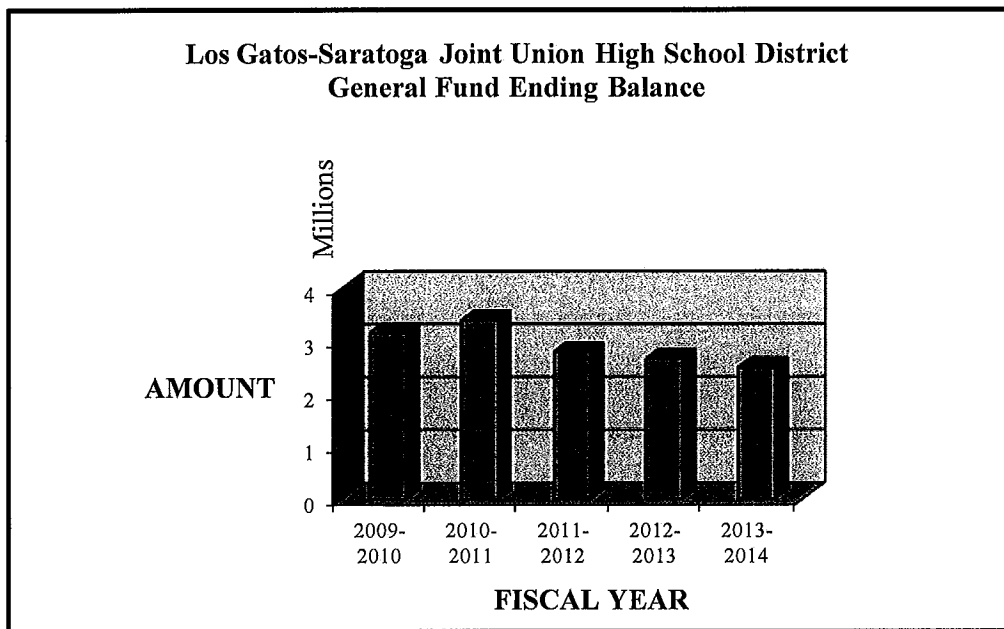
LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

As seen in the chart on the previous page, the District spent 66.80% of total General Fund expenditures on instruction and instruction-related activities.

In the General Fund, excluding Special Reserve for Other than Capital Outlay Fund and On Behalf payments, total revenues and transfers in were \$43.4 million. Expenditures also excluding Special Reserve for Other than Capital Outlay Fund and On Behalf payments totaled \$43.8 million. This resulted in an ending fund balance of \$2,268,256. Of this amount, \$690,615 is restricted or nonspendable. The District's reserve level is 10.72%. The State requires reserves of 3% of General Fund expenditures and other uses. Available reserves are \$4.7 million which includes \$3.1 million from our Special Reserve – Other Than Capital Outlay Fund. Although the available reserves exceed the state required minimum, these monies can only fund one-time expenditures and should not be used to support ongoing expenses.



General Fund Budgetary Highlights

Over the course of the year, the District revised the adopted budget with two interims and a final revised budget. Revenues increased due to the passage of the parcel tax. Local property taxes bottomed out in 2011-12 and began a slow recovery. The District anticipates a 3% increase in property tax income in 2014-2015 (net of RDA funding).

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2014, the District had invested \$122 million in a wide range of capital assets, including school buildings, fields, computer equipment and vehicles. The net book value of total assets decreased \$2.8 million from the prior year.

Los Gatos-Saratoga Joint Union High School District Capital Assets at Year-end (in thousands of dollars)			
	Total District <u>2014</u>	Total District <u>2013</u>	Total Changes
Cost:			
Land	\$ 49	\$ 49	\$ -
Construction in progress	1,199	360	839
Improvement of sites	54	54	-
Buildings and improvements	118,132	117,172	960
Equipment	2,160	2,084	76
	<u>\$ 121,594</u>	<u>\$ 119,719</u>	<u>\$ 1,875</u>
Accumulated Depreciation:			
Improvement of sites	\$ 13	\$ 83	\$ (70)
Buildings and improvements	47,323	42,663	4,660
Equipment	1,400	1,290	110
	<u>\$ 48,736</u>	<u>\$ 44,036</u>	<u>\$ 4,700</u>
Net Book Value:			
Land	\$ 49	\$ 49	\$ -
Construction in progress	1,199	360	839
Improvement of sites	41	(29)	70
Buildings and improvements	70,809	74,509	(3,700)
Equipment	760	794	(34)
	<u>\$ 72,858</u>	<u>\$ 75,683</u>	<u>\$ (2,825)</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Long-Term Obligations

The District has issued all of its general obligation bond authorization. This table provides a summary of the changes in long-term obligations for the year ended June 30, 2014. The decrease shown is the result of the annual payment for both general obligation bonds and certificates of participation. Refer to Note 8 in the accompanying financial statements for additional information on long-term obligations.

Los Gatos-Saratoga Joint Union High School District Outstanding Long-Term Debt at Year-End (in thousands of dollars)			
	Total District <u>2014</u>	Total District <u>2013</u>	Total Changes
Long-Term Debt Outstanding:			
General Obligation Bonds	\$ 41,805	\$ 46,905	\$ (5,100)
Unamortized Bond Premium	2,421	2,540	(119)
GOB Gain/Loss on Refunding	(209)	(231)	22
State School Building Loans	494	565	(71)
Accumulated Vacation	245	232	13
Capitalized Leases	42	99	(57)
Certificates of Participation	7,925	8,420	(495)
Unamortized COP Premium	226	254	(28)
COP Gain/Loss on Refunding	(66)	(73)	7
Other Postemployment Benefits	2,093	1,536	557
	<u>\$ 54,976</u>	<u>\$ 60,247</u>	<u>\$ (5,271)</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

In 2013-14, the State eliminated the revenue limit funding formulate and implemented the Local Control Funding Formula (LCFF). For the District, this change has minimal or no effect because property taxes exceed the LCFF target and future property tax growth is expected to exceed the growth in the LCFF target for the short and long term.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District is very fortunate to be a basic aid district and tracks the assessed valuation growth monthly in order to make conservative growth projections. This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District's Business Officer, Ann Jones, at 408-354-2520, extension 227, Los Gatos-Saratoga Joint Union High School District, 17421 Farley Road West, Los Gatos, CA 95030, or ajones@lgsuhd.org.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	Governmental Activities
Assets	
Deposits and investments	\$ 12,470,142
Receivables	2,861,652
Stores inventories	5,500
Capital assets not being depreciated	1,247,645
Capital assets, net of accumulated depreciation	71,609,600
Total Assets	<u>88,194,539</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	274,368
Total Deferred Outflows of Resources	<u>274,368</u>
Liabilities	
Accounts payable	188,024
Interest payable	269,547
Unearned revenue	15,921
Current portion of long-term obligations	6,451,848
Noncurrent portion of long-term obligations	48,799,397
Total Liabilities	<u>55,724,737</u>
Net Position	
Net investment in capital assets	20,218,379
Restricted for:	
Debt service	6,835,384
Capital projects	1,073,040
Educational programs	678,915
Unrestricted	3,938,452
Total Net Position	<u>\$ 32,744,170</u>

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues	Net (Expenses) Revenues and Changes in Net Position
		Operating Grants and Contributions	Governmental Activities
Governmental activities:			
Instruction	\$ 28,671,603	\$ 2,540,279	\$ (26,131,324)
Instruction related activities:			
Supervision of instruction	1,242,367	108,237	(1,134,130)
Instructional library, media and technology	1,550,807	8,169	(1,542,638)
School site administration	1,702,058	452	(1,701,606)
Pupil services:			
Home-to-school transportation	245,236	44,386	(200,850)
Food services	827,356	-	(827,356)
All other pupil services	3,690,158	196,984	(3,493,174)
General administration:			
All other general administration	3,085,916	-	(3,085,916)
Plant services	7,315,913	22,523	(7,293,390)
Ancillary services	1,503,952	-	(1,503,952)
Community services	228,346	-	(228,346)
Enterprise services	319,878	-	(319,878)
Interest on long-term obligations	2,377,390	-	(2,377,390)
Other outgo	280,812	17,562	(263,250)
Total Governmental-Type Activities	\$ 53,041,792	\$ 2,938,592	(50,103,200)
General revenues and subventions:			
Property taxes, levied for general purposes			34,988,065
Property taxes, levied for debt service			7,218,457
Taxes levied for other specific purposes			2,431,027
Federal and State aid not restricted to specific purposes			1,246,832
Interest and investment earnings			31,898
Miscellaneous			6,017,094
Subtotal, General Revenues			51,933,373
Change in net position			1,830,173
Net Position - Beginning, as restated			30,913,997
Net Position - Ending			\$ 32,744,170

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 3,263,845	\$ 2,574	\$ 6,372,188	\$ 2,831,535	\$ 12,470,142
Receivables	1,434,114	1,325,625	3,948	97,965	2,861,652
Due from other funds	890,000	-	-	-	890,000
Stores inventories	-	-	-	5,500	5,500
Total Assets	\$ 5,587,959	\$ 1,328,199	\$ 6,376,136	\$ 2,935,000	\$ 16,227,294
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 185,451	\$ 543	\$ -	\$ 2,030	\$ 188,024
Due to other funds	-	890,000	-	-	890,000
Unearned revenue	15,921	-	-	-	15,921
Total Liabilities	201,372	890,543	-	2,030	1,093,945
Fund balances:					
Nonspendable	11,700	-	-	7,700	19,400
Restricted	678,915	437,656	6,376,136	1,364,668	8,857,375
Committed	-	-	-	1,560,602	1,560,602
Unassigned	4,695,972	-	-	-	4,695,972
Total Fund Balances	5,386,587	437,656	6,376,136	2,932,970	15,133,349
Total Liabilities and Fund Balances	\$ 5,587,959	\$ 1,328,199	\$ 6,376,136	\$ 2,935,000	\$ 16,227,294

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balance - Governmental Funds		\$ 15,133,349
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 121,593,867	
Accumulated depreciation is	<u>(48,736,622)</u>	72,857,245
In governmental funds, interest on long-term obligations is recognized in the period when it is paid. On the government-wide statements, interest on long-term obligations is recognized as it accrues.		(269,547)
Long-term liabilities are not recognized on the governmental funds but are recorded on the statement of net position:		
Bonds payable	(41,805,000)	
Bond premium	(2,421,402)	
Bond deferred amount on refunding	208,643	
Certificates of participation	(7,925,000)	
COP premium	(226,424)	
COP deferred amount on refunding	65,721	
Capital leases payable	(41,608)	
OPEB obligations	(2,093,058)	
State school building loan	(493,796)	
Compensated absences (vacations)	<u>(244,953)</u>	<u>(54,976,877)</u>
Total Net Position - Governmental Activities		<u>\$ 32,744,170</u>

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local control funding formula	\$ 35,697,202	\$ -	\$ -	\$ -	\$ 35,697,202
Federal sources	837,299	-	-	-	837,299
Other state sources	2,927,360	-	30,560	-	2,957,920
Other local sources	5,020,369	1,880,434	7,205,538	1,126,315	15,232,656
Total Revenues	44,482,230	1,880,434	7,236,098	1,126,315	54,725,077
EXPENDITURES					
Current					
Instruction	25,356,854	-	-	80,483	25,437,337
Instruction related activities:					
Supervision of instruction	1,092,245	-	-	27,628	1,119,873
Instructional library, media and technology	1,397,902	-	-	-	1,397,902
School site administration	1,534,240	-	-	-	1,534,240
Pupil Services:					
Home-to school transportation	221,056	-	-	-	221,056
Food services	52,678	-	-	693,103	745,781
All other pupil services	3,326,318	-	-	-	3,326,318
General administration:					
All other general administration	2,838,673	-	-	-	2,838,673
Plant services	5,410,754	662,308	-	230,852	6,303,914
Facility acquisition and construction	-	2,212,881	-	-	2,212,881
Ancillary services	1,355,666	-	-	-	1,355,666
Community services	205,832	-	-	-	205,832
Other outgo	280,812	-	-	-	280,812
Enterprise services	-	-	-	288,339	288,339
Debt service					
Principal	-	495,000	5,100,000	71,183	5,666,183
Interest and other	-	295,213	2,067,523	68,709	2,431,445
Total Expenditures	43,073,030	3,665,402	7,167,523	1,460,297	55,366,252
Excess (Deficiency) of Revenues Over Expenditures	1,409,200	(1,784,968)	68,575	(333,982)	(641,175)
Other Financing Sources (Uses):					
Transfers in	-	1,000,000	-	570,000	1,570,000
Transfers out	(1,570,000)	-	-	-	(1,570,000)
Net Financing Sources (Uses)	(1,570,000)	1,000,000	-	570,000	-
NET CHANGE IN FUND BALANCES	(160,800)	(784,968)	68,575	236,018	(641,175)
Fund Balances - Beginning	5,547,387	1,222,624	6,307,561	2,696,952	15,774,524
Fund Balances - Ending	\$ 5,386,587	\$ 437,656	\$ 6,376,136	\$ 2,932,970	\$ 15,133,349

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balances - Governmental Funds		\$ (641,175)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, the costs are capitalized for the government-wide statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Capital outlays	\$ 1,890,417	
Depreciation expense	<u>(4,780,368)</u>	(2,889,951)
Gain on disposal of capital assets is reported in the government-wide statement of net position, but is not recorded in the governmental funds.		63,257
In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (the amounts actually paid). Vacation amounts earned were more than the amounts used.		(12,291)
Repayment of state loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		71,183
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		5,100,000
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		57,519
Repayment of certificates of participation is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		495,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest expense reported in the governmental funds statements is the net result of these two factors.		27,021

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Amortization of premiums is not recorded in the governmental funds, but is amortized over the life of the bond in the statement of activities.	146,888
Amortization of gain or loss on refunding is not recorded in the governmental funds, but is amortized over the life of the bond in the statement of activities.	(30,485)
Contributions to the retiree benefits fund are recorded as expenditures in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the statement of activities as an expense. The actual amount of the contribution was less than the annual required contribution.	<u>(556,793)</u>
Change in Net Position of Governmental Activities	<u>\$ 1,830,173</u>

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	<u>Scholarship Trust</u>	<u>Agency Fund</u>
Assets		
Deposits and investments	\$ 396,192	\$ 1,432,315
Receivables	397	-
Total Assets	<u>396,589</u>	<u>\$ 1,432,315</u>
Liabilities		
Due to student groups	-	\$ 1,432,315
Total Liabilities	<u>-</u>	<u>\$ 1,432,315</u>
Net Position		
Restricted for scholarships	<u>396,589</u>	
Total Net Position	<u>\$ 396,589</u>	

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2014

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 1,713</u>
DEDUCTIONS	
Scholarships	<u>7,500</u>
Change in Net Position	<u>(5,787)</u>
Net Position - Beginning	<u>402,376</u>
Net Position - Ending	<u><u>\$ 396,589</u></u>

The accompanying notes are an integral part of these financial statements.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Los Gatos-Saratoga Joint Union High School District (the District) was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades nine through twelve as mandated by the State of California. The District operates two high schools, one adult education program, and one regional occupational program.

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-Saratoga Joint Union High School District, this includes general operations and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may 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. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the Board of Trustees of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Los Gatos-Saratoga Joint Union High School District Financing Corporation's financial activity is presented in the financial statements as the COP Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Los Gatos-Saratoga Joint Union High School District Financing Corporation.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of, \$2,118,332, \$2,118,332, \$9,958 and \$0 respectively.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Other Non-Major Governmental Funds

Adult Education Fund The Adult Education Fund is used to account separately for local revenues for adult education programs and is committed to be expended for adult education purposes only.

Cafeteria Fund The Cafeteria Fund is used to account separately for local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Retiree Benefits Fund The Retiree Benefits Fund exists to account separately for funds committed for employees' retirement benefit payments.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

COP Debt Service Fund The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB). Trust funds are used to account for the assets held by the District under a trust agreement for scholarships.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-Major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current position and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the differences between the government-wide statements and the statements for the governmental funds.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and 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 on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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 expected to be received within ninety days of fiscal year-end. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable and typically paid within 90 days. Principal and interest on general long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Deposits

The District's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments held at June 30, 2014, 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. Fair values of investments in County are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when used.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and are capitalized in the government-wide financial statements. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Depreciation is computed by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years. Depreciation expense is allocated in the statement of activities based on expenditures by function.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a current liability on the government-wide statement of net position. For governmental funds, the liability is disclosed in the general long-term debt account group and is not accrued as a liability in any governmental fund.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as expenditures of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight line method.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 4 percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Interfund transfers are eliminated in the governmental columns of the statement of activities.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the Board of Trustees to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District Board of Trustees satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Changes in Accounting Principles

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$489,181. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 12,470,142
Fiduciary funds	1,828,507
Total Deposits and Investments	<u>\$ 14,298,649</u>

Deposits and investments as of June 30, 2014, consist of the following

Cash on hand and in banks	\$ 1,438,049
Cash in revolving	13,900
Investments	12,846,700
Total Deposits and Investments	<u>\$ 14,298,649</u>

Policies and Practices

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.

Investment in County Treasury

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 fair value of the District's investment in the pool is reported in the accounting financial statements at amounts 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.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules 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 Corporate 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 manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool.

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

Investment Type	Cost	Fair Value	Maturity
Money Market Mutual Funds	\$ 719,793	\$ 719,793	0 days
County Pool	12,126,907	12,127,043	416 days
Total	<u>\$ 12,846,700</u>	<u>\$ 12,846,836</u>	

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 measure by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District’s investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Cost	S&P Rating as of Year End	
		AAA	Unrated
Money market Mutual Funds	\$ 719,793	\$ 719,793	\$ -
County Pool	12,126,907	-	12,126,907
Total	<u>\$ 12,846,700</u>	<u>\$ 719,793</u>	<u>\$ 12,126,907</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2014, the District was exposed to \$1,033,323 of custodial credit risk.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 - RECEIVABLES AND DUE FROM OTHER GOVERNMENTS

Receivables and due from other governments at June 30, 2014, consist of the following:

	General	Building Fund	Bond Interest and Redemption	Non-Major Funds	Total
Federal Government					
Categorical aid	\$ 376,187	\$ -	\$ -	\$ -	\$ 376,187
State Government					
State principal apportionment	63,867	-	-	-	63,867
Categorical aid	432,432	-	-	-	432,432
Lottery	268,231	-	-	-	268,231
Other state	5,864	-	-	-	5,864
Local Government					
Interest	287,533	625	3,948	1,794	293,900
Other Local Sources	-	1,325,000	-	96,171	1,421,171
Total	<u>\$ 1,434,114</u>	<u>\$ 1,325,625</u>	<u>\$ 3,948</u>	<u>\$ 97,965</u>	<u>\$ 2,861,652</u>

All receivables are considered collectible in full.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 48,953	\$ -	\$ -	\$ 48,953
Construction in Progress	360,000	1,198,692	360,000	1,198,692
Total Capital Assets not being depreciated	<u>408,953</u>	<u>1,198,692</u>	<u>360,000</u>	<u>1,247,645</u>
Capital Assets being depreciated:				
Land Improvements	54,440	-	-	54,440
Buildings and Improvements	117,172,102	959,749	-	118,131,851
Furniture and Equipment	2,084,429	91,976	16,473	2,159,932
Total Capital Assets being depreciated	<u>119,310,971</u>	<u>1,051,725</u>	<u>16,473</u>	<u>120,346,223</u>
Total Capital Assets	<u>119,719,924</u>	<u>2,250,417</u>	<u>376,473</u>	<u>121,593,868</u>
Less Accumulated Depreciation:				
Land Improvements	82,717	-	69,334	13,383
Buildings and Improvements	42,662,770	4,660,583	-	47,323,353
Furniture and Equipment	1,290,498	119,785	10,396	1,399,887
Total Accumulated Depreciation	<u>44,035,985</u>	<u>4,780,368</u>	<u>79,730</u>	<u>48,736,623</u>
Governmental Activities Capital Assets, Net	<u>\$ 75,683,939</u>	<u>\$ (2,529,951)</u>	<u>\$ 296,743</u>	<u>\$ 72,857,245</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,665,182
Supervision of instruction	122,494
Instructional library, media, and technology	152,905
School site administration	167,818
Home-to-school transportation	24,180
Food services	81,575
All other pupil services	363,840
All other general administration	310,500
Plant services	689,535
Ancillary services	148,286
Community services	22,514
Enterprise	31,539
Total Depreciation Expense Governmental Activities	<u>\$ 4,780,368</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfer Out	Transfer In		Total
		Building	Non-Major Governmental	
General		\$ 1,000,000	\$ 570,000	\$ 1,570,000
	Total	\$ 1,000,000	\$ 570,000	\$ 1,570,000

The General Fund transferred to Deferred Maintenance Fund for maintenance projects.	\$ 285,000
The General Fund transferred to the Cafeteria Fund for contributions.	60,000
The General Fund transferred to the Building Fund for redevelopment projects.	1,000,000
The General Fund transferred to the Retiree Benefits Fund for annual retirement contribution.	225,000
Total	\$ 1,570,000

Interfund Receivables/Payables (Due to/Due from)

Interfund Receivables/Payables (Due to/Due from) for the year ended June 30, 2014, consisted of the following:

		Due From
		Building
Due To	General	\$ 890,000

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General	Building	Non-Major Governmental	Total
Vendor payables	\$ 175,267	\$ 543	\$ 2,030	\$ 177,840
State principle apportionment	10,184	-	-	10,184
Total	<u>\$ 185,451</u>	<u>\$ 543</u>	<u>\$ 2,030</u>	<u>\$ 188,024</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund
Federal financial assistance	<u>\$ 15,921</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 46,905,000	\$ -	\$ 5,100,000	\$ 41,805,000	\$ 5,270,000
Unamortized bond premium	2,539,987	-	118,585	2,421,402	118,585
Office of public school construction loan	564,979	-	71,183	493,796	74,145
Certificates of participation	8,420,000	-	495,000	7,925,000	930,000
Unamortized COP premium	254,727	-	28,303	226,424	28,303
Accumulated vacation	232,662	12,291	-	244,953	-
Capital leases	99,127	-	57,519	41,608	30,815
Other postemployment benefits	1,536,265	845,132	288,339	2,093,058	-
	<u>\$ 60,552,747</u>	<u>\$ 857,423</u>	<u>\$ 6,158,929</u>	<u>\$ 55,251,241</u>	<u>\$ 6,451,848</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund from a separate property tax override and, thus, do not require the use of general revenues. Payments for the Certificates of Participation are made from the Building Fund. Payments on capital leases are made by the Capital Facilities Fund. The accrued vacation and other postemployment benefits will be paid by the fund for which the employee worked.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

The deferred amount on refunding of \$274,364 consisted of the following:

	Balance			Balance
	July 1, 2013	Additions	Deductions	June 30, 2014
Loss on bond refunding	\$ (231,826)	\$ -	\$ (23,183)	\$ (208,643)
Loss on COP refunding	(73,023)	-	(7,302)	(65,721)
	<u>\$ (304,849)</u>	<u>\$ -</u>	<u>\$ (30,485)</u>	<u>\$ (274,364)</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest	Original Issue	Bonds			Bonds
				Outstanding July 1, 2013	Issued	Redeemed	Outstanding June 30, 2014
2005	2020	3.00-5.25%	\$ 46,765,000	\$ 37,120,000	\$ -	\$ 4,010,000	\$ 33,110,000
2012	2023	2.00-3.00%	9,785,000	9,785,000	-	1,090,000	8,695,000
				<u>\$ 46,905,000</u>	<u>\$ -</u>	<u>\$ 5,100,000</u>	<u>\$ 41,805,000</u>

Debt Service Requirements to Maturity

The bonds mature through 2024 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 5,270,000	\$ 1,824,950	\$ 7,094,950
2016	5,870,000	1,560,900	7,430,900
2017	6,525,000	1,266,025	7,791,025
2018	7,235,000	933,650	8,168,650
2019	8,000,000	570,925	8,570,925
2020-2024	8,905,000	573,050	9,478,050
Total	<u>\$ 41,805,000</u>	<u>\$ 6,729,500</u>	<u>\$ 48,534,500</u>

Office of Public Schools Construction Loan

In May 2008, the Los Gatos-Saratoga Joint Union High School District Financing Corporation issued a note payable to the Office of Public Schools Construction in the amount of \$761,916 with the interest rate set at 4.161% to be repaid over ten years commencing in 2012. As of the fiscal year ended June 30, 2011, the District has received 100% of the agreed upon amount.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The outstanding Office of Public Schools Construction loan is as follows:

Year Disbursed	Interest Rate	Balance July 1, 2013	Repayment and State Credit Current Year	Outstanding June 30, 2014
2008	4.161%	\$ 564,979	\$ 71,183	\$ 493,796

Certificates of Participation

On August 1, 2008, the District issued two certificates of participation (COP) totaling \$7,070,000. These certificates of participation were issued to finance the cost of a high school technology project, school sports facilities improvements, and construction of administrative and commercial office space. The first COP, totaling \$4,770,000 matures on November 1, 2023 and yields interest between 4.0 and 5.0 percent. Interest on this COP is first payable on May 1, 2009 and semiannually thereafter on May 1st and November 1st of each year. Principal payments are first due November 1, 2014 and every November 1st thereafter. The second COP, totaling \$2,300,000 matures on November 1, 2014 and yields interest between 4.6 and 5.375 percent. Interest on this COP is first payable on May 1, 2009 and semiannually thereafter on May 1st and November 1st of each year. Principal payments are first due November 1, 2009 and every November 1st thereafter. As of June 30, 2014 the principal outstanding was \$5,355,000 for both COPs.

On October 18, 2012, the District issued refunding certificates of participation in the amount of \$2,845,000 with interest ranging from 2.0 to 5.0 percent to refund \$2,950,000 of outstanding 2001 certificates of participation. As of June 30, 2014 the principal outstanding was \$2,570,000.

The certificates mature through 2024 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 930,000	\$ 311,259	\$ 1,241,259
2016	735,000	279,838	1,014,838
2017	765,000	252,988	1,017,988
2018	795,000	225,038	1,020,038
2019	820,000	193,613	1,013,613
2020-2024	3,880,000	420,469	4,300,469
Total	\$ 7,925,000	\$ 1,683,205	\$ 9,608,205

Accumulated Vacation

The long-term portion of accumulated vacation for the District at June 30, 2014 amounted to \$244,953.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Capital Leases

The District's future minimum lease payments for leased equipments are as follows:

<u>Fiscal Year</u>	
2015	\$ 32,779
2016	10,926
Total	<u>43,705</u>
Less Interest	(2,097)
Principal outstanding	<u>\$ 41,608</u>

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Building Fund	Bond Interest and Redemption	Non-Major Governmental	Total
Nonspendable					
Revolving cash	\$ 11,700	\$ -	\$ -	\$ 2,200	\$ 13,900
Stores inventory	-	-	-	5,500	5,500
Total Nonspendable	<u>11,700</u>	<u>-</u>	<u>-</u>	<u>7,700</u>	<u>19,400</u>
Restricted					
Legally restricted programs	678,915	-	-	-	678,915
Capital projects	-	437,656	-	-	437,656
Debt service	-	-	6,376,136	1,364,668	7,740,804
Total Restricted	<u>678,915</u>	<u>437,656</u>	<u>6,376,136</u>	<u>1,364,668</u>	<u>8,857,375</u>
Committed					
Adult education program	-	-	-	59,631	59,631
Deferred maintenance program	-	-	-	126,042	126,042
Cafeteria operation	-	-	-	2,519	2,519
OPEB	-	-	-	1,372,410	1,372,410
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,560,602</u>	<u>1,560,602</u>
Unassigned	4,695,972	-	-	-	4,695,972
Total	<u>\$ 5,386,587</u>	<u>\$ 437,656</u>	<u>\$ 6,376,136</u>	<u>\$ 2,932,970</u>	<u>\$ 15,133,349</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Los Gatos-Saratoga Joint Union High School District. The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 16 retirees and beneficiaries currently receiving benefits, and 259 active plan members as of most recent actuarial evaluation performed. The District offers retiree health care benefits at District expense as follows:

- Classified employees hired are eligible for benefits alongside their spouses and dependents at age 55 with 10 years of full time service.
- Certificated employees hired before July 1, 2006 are eligible for benefits for the employee plus one dependent benefits at age 58 with 10 years of service.
- Certificated Employees hired on or after July 1, 2006 are eligible for benefits for the employee plus one dependent at age 58 with 20 years of service.
- Management employees are eligible for benefits after 10 year of service at age 55.
- The benefits are paid at 75% by the District and 25% by the employee but the District paid benefits increase from 75% to 100% from age 55 to age 60.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the represented and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013-2014, the District contributed \$288,339 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums).

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 845,132
Contributions made	<u>(288,339)</u>
Increase in net OPEB obligation	556,793
Net OPEB obligation, beginning of year	<u>1,536,265</u>
Net OPEB obligation, end of year	<u>\$ 2,093,058</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The annual OPEB cost, the percentage of annual OPEB cost contribution to the Plan, and net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2014	\$ 845,132	\$ 288,339	34.12%	\$ 2,093,058
2013	794,714	263,456	33.15%	1,536,265
2012	761,204	253,055	33.24%	1,005,007

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Below is a summary of the funded status of the plan for the most recent actuarial valuation:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c])
2/1/2012	\$ -	\$ 4,561,630	\$ 4,561,630	0.00%	\$ 23,872,789	19.11%
2/1/2010	-	3,615,987	3,615,987	0.00%	23,723,769	15.24%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the February 1, 2012, actuarial valuation, the Entry Age Normal method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses). Healthcare cost trend rates were estimated at an average of four percent. The UAAL is being amortized at a level percentage of payroll method on an open basis. The remaining amortization period at 2014, was 30 years.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, the District participated in the South Bay Area Schools' Insurance Authority (SBASIA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2014, the District participated in the Santa Clara County Schools' Insurance Group (SCCSIG) and South Bay Area Schools' Insurance Authority (SBASIA), insurance purchasing pools. The intent of the SCCSIG and SBASIA are to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SCCSIG and SBASIA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SCCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings for both agencies are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the agencies. Participation in the agencies is limited to districts that can meet their selection criteria.

Coverage for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Santa Clara County Schools' Insurance Group	Workers' Compensation	Statutory
South Bay Area Schools' Insurance Authority	Liability	\$ 20,000,000
	Property	1,000,000,000

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CalSTRS

Plan Description

The District contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, Sacramento, CA 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$1,595,430, \$1,506,392, and \$1,428,305, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$679,122, \$627,542, and \$597,835, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,071,547 (5.541 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

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.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2014.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the South Bay Area Schools' Insurance Authority and the Santa Clara County Schools' Insurance Group joint powers authorities JPA's. The District pays an annual premium to the applicable risk pool for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2014, the District made the following payments:

South Bay Area Schools' Insurance Authority	\$ 166,680
Santa Clara County Schools' Insurance Group	<u>533,808</u>
	<u>\$ 700,488</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 31,403,178
Restatement/cost of issuance	(489,181)
Net Position - Beginning as Restated	<u>\$ 30,913,997</u>

REQUIRED SUPPLEMENTARY INFORMATION

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (Non GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Local control funding formula	\$ 33,344,253	\$ 34,342,000	\$ 35,697,202	\$ 1,355,202
Federal sources	816,540	746,939	837,299	90,360
Other state sources	1,398,332	1,398,332	1,855,813	457,481
Other local sources	3,600,000	4,250,000	5,010,411	760,411
Total Revenues	39,159,125	40,737,271	43,400,725	2,663,454
EXPENDITURES				
Current				
Certificated salaries	18,975,008	19,121,081	19,445,294	(324,213)
Classified salaries	6,332,398	6,569,050	6,691,455	(122,405)
Employee benefits	7,343,163	7,555,484	7,818,547	(263,063)
Books and supplies	1,161,452	1,147,683	2,226,656	(1,078,973)
Services and operating expenditures	4,368,578	4,126,465	5,458,743	(1,332,278)
Other outgo	-	-	280,812	(280,812)
Capital outlay	75,000	76,748	79,976	(3,228)
Total Expenditures	38,255,599	38,596,511	42,001,483	(3,404,972)
Excess (Deficiency) of Revenues				
Over Expenditures	903,526	2,140,760	1,399,242	(741,518)
Other Financing Sources (Uses):				
Transfers out	(685,000)	(1,795,000)	(1,795,000)	-
Net Financing Sources (Uses)	(685,000)	(1,795,000)	(1,795,000)	-
NET CHANGE IN FUND BALANCES				
Fund Balance - Beginning	2,664,013	2,664,013	2,664,013	-
Fund Balance - Ending	\$ 2,882,539	\$ 3,009,773	2,268,255	\$ (741,518)
Special Reserve for other than Capital Outlay Fund			3,118,332	
Fund Balance - Ending, GAAP Basis			\$ 5,386,587	

* On Behalf payments of \$1,071,547 have been excluded from the revenues and expenditures in the budgeted and actual columns.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
2/1/2012	\$ -	\$ 4,561,630	\$ 4,561,630	0.00%	\$ 23,872,789	19.11%
2/1/2010	-	3,615,987	3,615,987	0.00%	23,723,769	15.24%

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SUPPLEMENTARY INFORMATION

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I - Basic	84.010	14981	\$ 88,976
Special Education Cluster			
Basic Local Assistance	84.027	13379	415,149
Mental Health Allocation	84.027A	14468	216,321
Workability II Transitions Partnership	84.158	10006	51,028
Technology II C, Section 131	84.048	14894	31,826
Title II Teacher Quality	84.367	14341	33,548
Title II Administrator Training	84.367	14344	451
Total Expenditures of Federal Awards			<u>\$ 837,299</u>

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2014

ORGANIZATION

The Los Gatos-Saratoga Joint Union High School District (the District) was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades nine through twelve as mandated by the State of California. The District operates two high schools, one adult education program and one regional occupational program.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Doug Ramezane	President	2014
Michele H. van Zuiden	Vice President	2014
Cynthia Chang	Clerk	2014
Rosemary Rossi	Member	2016
Katherine Tseng	Member	2016

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Bob Mistele	Superintendent
Tom Woodruff	Chief Business Officer

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Second Period Report</u>	<u>Annual Report</u>
SECONDARY		
Regular classes - Ninth through twelfth	3,129.33	3,124.67
Extended year special education	0.16	0.16
Special education - nonpublic	5.04	5.14
Extended year special education - nonpublic	0.71	0.71
Total Secondary	<u>3,135.24</u>	<u>3,130.68</u>

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirements</u>	<u>2013-14 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	64,800	63,000	65,575	180	Complied
Grade 10	64,800	63,000	65,575	180	Complied
Grade 11	64,800	63,000	65,575	180	Complied
Grade 12	64,800	63,000	65,575	180	Complied

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Special Reserve Fund
Balances, June 30 2014, Unaudited Actual	\$ 2,268,255	\$ 3,118,332
Combining Special Reserve Fund to General Fund on the financial statements	3,118,332	(3,118,332)
Balances, June 30 2014, Audited Financial Statement	<u>\$ 5,386,587</u>	<u>\$ -</u>

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

	(Budget) 2015 ¹	2014	2013	2012
GENERAL FUND⁴				
Revenues	\$ 43,308,227	\$ 43,400,725	\$ 40,880,578	\$ 36,589,660
Other sources and transfer in	-	-	-	150,000
Total Revenues and Other Sources	<u>43,308,227</u>	<u>43,400,725</u>	<u>40,880,578</u>	<u>36,739,660</u>
Expenditures	41,890,532	42,001,483	39,329,247	36,657,874
Other uses and transfers out	1,685,000	1,795,000	1,680,000	685,000
Total Expenditures and Other Uses	<u>43,575,532</u>	<u>43,796,483</u>	<u>41,009,247</u>	<u>37,342,874</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (267,305)</u>	<u>\$ (395,758)</u>	<u>\$ (128,669)</u>	<u>\$ (603,214)</u>
ENDING FUND BALANCE	<u>\$ 2,000,950</u>	<u>\$ 2,268,255</u>	<u>\$ 2,664,013</u>	<u>\$ 2,792,682</u>
AVAILABLE RESERVES²	<u>\$ 4,892,737</u>	<u>\$ 4,695,972</u>	<u>\$ 4,835,463</u>	<u>\$ 4,936,223</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>11.23%</u>	<u>10.72%</u>	<u>11.79%</u>	<u>13.22%</u>
LONG-TERM OBLIGATIONS AVERAGE DAILY ATTENDANCE AT P-2	<u>\$ 48,799,397</u>	<u>\$ 55,251,241</u>	<u>\$ 59,432,999</u>	<u>\$ 63,809,393</u>
	<u>3,162</u>	<u>3,135</u>	<u>3,110</u>	<u>3,144</u>

The General Fund balance has decreased by \$524,427 over the past two years. The fiscal year 2014-2015 budget projects an decrease of \$267,305. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

Total long-term obligations have decreased by \$8,558,152 over the past two years. Average daily attendance has decreased by 9 ADA over the past two years. An increase of 27 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for other than Capital Outlay.

³ On-behalf payments of \$1,071,547, \$948,985, and \$837,376, have been excluded from this schedule for fiscal years ending June 30, 2014, 2013 and 2012, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for other than Capital Outlay, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2014

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 56,929	\$ 5,746	\$ 126,026
Receivables	3,702	3	16
Stores inventories	-	5,500	-
Total assets	<u>\$ 60,631</u>	<u>\$ 11,249</u>	<u>\$ 126,042</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 2,030	\$ -
Fund Balances:			
Nonspendable	1,000	6,700	-
Restricted	-	-	-
Committed	59,631	2,519	126,042
Total fund balances	<u>60,631</u>	<u>9,219</u>	<u>126,042</u>
Total Liabilities and Fund Balances	<u>\$ 60,631</u>	<u>\$ 11,249</u>	<u>\$ 126,042</u>

See accompanying note to supplementary information.

Capital Facilities Fund	COP Debt Service Fund	Retiree Benefits Fund	Non-Major Governmental Funds
\$ 542,783	\$ 728,795	\$ 1,371,256	\$ 2,831,535
93,090	-	1,154	97,965
-	-	-	5,500
<u>\$ 635,873</u>	<u>\$ 728,795</u>	<u>\$ 1,372,410</u>	<u>\$ 2,935,000</u>
\$ -	\$ -	\$ -	\$ 2,030
-	-	-	7,700
635,873	728,795	-	1,364,668
-	-	1,372,410	1,560,602
<u>635,873</u>	<u>728,795</u>	<u>1,372,410</u>	<u>2,932,970</u>
<u>\$ 635,873</u>	<u>\$ 728,795</u>	<u>\$ 1,372,410</u>	<u>\$ 2,935,000</u>

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Other local sources	\$ 88,878	\$ 631,899	\$ 301
EXPENDITURES			
Current			
Instruction	80,483	-	-
Instruction related activities:			
Supervision of instruction	27,628	-	-
Pupil Services:			
Food services	-	693,103	-
Plant services	-	-	230,852
Enterprise services	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>108,111</u>	<u>693,103</u>	<u>230,852</u>
Excess (deficiency) of revenues over expenditures	<u>(19,233)</u>	<u>(61,204)</u>	<u>(230,551)</u>
Other Financing Sources (Uses):			
Transfers in	-	60,000	285,000
NET CHANGE IN FUND BALANCES	<u>(19,233)</u>	<u>(1,204)</u>	<u>54,449</u>
Fund Balances - Beginning	<u>79,864</u>	<u>10,423</u>	<u>71,593</u>
Fund Balances - Ending	<u>\$ 60,631</u>	<u>\$ 9,219</u>	<u>\$ 126,042</u>

See accompanying note to supplementary information.

Capital Facilities Fund	COP Debt Service Fund	Retiree Benefits Fund	Non-Major Governmental Funds
\$ 370,595	\$ (9)	\$ 34,651	\$ 1,126,315
-	-	-	80,483
-	-	-	27,628
-	-	-	693,103
-	-	-	230,852
-	-	288,339	288,339
71,183	-	-	71,183
68,709	-	-	68,709
139,892	-	288,339	1,460,297
230,703	(9)	(253,688)	(333,982)
-	-	225,000	570,000
230,703	(9)	(28,688)	236,018
405,170	728,804	1,401,098	2,696,952
\$ 635,873	\$ 728,795	\$ 1,372,410	\$ 2,932,970

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District did not receive incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report, to the audited financial statements.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS

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**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***

Governing Board
Los Gatos-Saratoga Joint Union High 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 Los Gatos-Saratoga Joint Union High School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Los Gatos-Saratoga Joint Union High School District's basic financial statements, and have issued our report thereon dated December 12, 2014.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, the District has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Los Gatos-Saratoga Joint Union High School 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 Los Gatos-Saratoga Joint Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Los Gatos-Saratoga Joint Union High School 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of financial statement findings and responses as item 2014-1 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 12, 2014



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

Governing Board
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

Report on Compliance for Each Major Federal Program

We have audited Los Gatos-Saratoga Joint Union High School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Los Gatos-Saratoga Joint Union High School District's (the District) major federal programs for the year ended June 30, 2014. Los Gatos-Saratoga Joint Union High School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Los Gatos-Saratoga Joint Union High School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Los Gatos-Saratoga Joint Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Los Gatos-Saratoga Joint Union High School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinck, Trinc, Day & Co. LLP

Palo Alto, California
December 12, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

Report on State Compliance

We have audited Los Gatos-Saratoga Joint Union High School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Los Gatos-Saratoga Joint Union High School District's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Los Gatos-Saratoga Joint Union High School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Los Gatos-Saratoga Joint Union High 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 opinions. Our audit does not provide a legal determination of Los Gatos-Saratoga Joint Union High School District's compliance with those requirements.

Unmodified Opinion on Each of the State Programs Listed Below

In our opinion, Los Gatos-Saratoga Joint Union High School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

Other Matters

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for the California Clean Energy Jobs Act because the District did not expend the funds in the current fiscal year.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 12, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133?, Section .510(a)	<u>No</u>
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A</u>	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for all state programs:	<u>Unmodified</u>
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LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2014-1 **Code**
30000 – Internal Control

Criteria or Specific Requirements

Best accounting practices require sound internal controls. These practices require having segregation of duties between personnel with access to cash and personnel maintaining accounting records of the cash collections.

Condition

Improper segregation of duties exists in the cafeteria receipts process. The cafeteria managers at both Los Gatos High School and Saratoga High School collect and reconcile cash received for the meals sold at those two sites.

Questioned Costs

None.

Context

All cash receipts processed through the District's cafeteria program.

Effect

Improper segregation of duties exposes the District's assets to the risk of misappropriation and lack of accountability.

Cause

The District did not assign separate responsibilities to the individuals within the school sites.

Recommendation

The District should engage a different individual to perform the reconciliation of cash deposited into the bank to the sales activities' records to ensure all cash collected for meals sold was properly deposited into the bank.

District's Response

The District will modify staff work schedules to allow proper segregation between cash and meal reconciliations.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

LOS GATOS-SARATOGA JOINT UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2013-1 Code 30000

Internal Control

Finding

Improper segregation of duties exists in the cafeteria receipts process. The cafeteria managers at both Los Gatos High School and Saratoga High School collect and reconcile cash received for the meals sold at those two sites. Improper segregation of duties exposes the District's assets to the risk of misappropriation and lack of accountability.

Recommendation

The District should engage a different individual to perform the reconciliation of cash deposited into the bank to the sales activities' records to ensure all cash collected for meals sold was properly deposited into the bank.

Current Status

Not Implemented.

Federal Awards Findings

None reported.

State Awards Findings

None reported.



December 12, 2014

To the Governing Board
Los Gatos-Saratoga Joint Union High School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Los Gatos-Saratoga Joint Union High School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Los Gatos-Saratoga Joint Union High School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by Los Gatos-Saratoga Joint Union High School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Los Gatos-Saratoga Joint Union High School District's financial statements were the valuation basis for capital assets and other postemployment benefit obligation (OPEB).

Management's estimate of the valuation basis for capital assets is based on historical cost and depreciation is computed using the straight-line method. The accrual of OPEB liability is based on actuarial study. We evaluated the key factors and assumptions used to develop the OPEB liability and net capital value in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. During the year, we did not propose any audit adjustment.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Los Gatos-Saratoga Joint Union High School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Los Gatos-Saratoga Joint Union High School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Governing Board and management of Los Gatos-Saratoga Joint Union High School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 12, 2014



Governing Board
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

We have performed the procedures enumerated below, which were agreed to by the management of the Los Gatos-Saratoga Joint Union High School District (the District), to assist you in determining the propriety of the use of funds generated from the Measure A Parcel Tax (the Measure) for the year ended June 30, 2014. Management of the District is responsible for the District's accounting records and is responsible for the calculation and presentation of amounts expended from the parcel tax proceeds in accordance with the Measure. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The specific procedures we performed were as follows:

Agreed Upon Procedures Performed

1. Verify that the expenditures of the Measure were accounted for separately in the accounting records to allow for accountability.
2. Verify that the net receipts from parcel taxes were deposited in total into the Measure's accounts.
3. Select 25% of the expenditures and verify that the funds expended complied with the purpose that was specified to the registered voters of the District through election material and strict resolutions.

Results of Procedures

1. The Measure expenditures were accounted for separately in Cost Center 007355.
2. We confirmed the amounts received in parcel taxes to the County of Santa Clara records.
3. Our review of the expenditures for the period July 1, 2013, through June 30, 2014, did not reveal any items that were paid from the Fund that did not comply with the purpose of the Measure.

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on the parcel tax records noted above. Accordingly we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is solely for the information and use of the Governing Board and is not intended to be and should not be used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 12, 2014

