



***AMENDED**
TOWN OF LOS GATOS
TOWN COUNCIL FINANCE COMMITTEE MEETING
January 23, 2017
TOWN COUNCIL CHAMBERS – 110 E MAIN STREET
LOS GATOS, CA
4:00 P.M.

**Rob Rennie, Vice Mayor*

**Steve Leonardis, Council Member*

MEETING CALLED TO ORDER

ROLL CALL

***ELECTION OF CHAIR AND VICE CHAIR**

CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Council Finance Committee Meeting Draft Minutes of November 21, 2016

VERBAL COMMUNICATIONS *(Members of the public may address the Committee on any matter that is not listed on the agenda. Unless additional time is authorized by the Committee, remarks shall be limited to three minutes.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items.)*

2. Recommendation to the Town Council to Review and Accept the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2016.

ADJOURNMENT

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
AGENDA REPORT**

MEETING DATE: 01/23/2017

ITEM NO: 1

**DRAFT
MINUTES OF THE COUNCIL FINANCE COMMITTEE AGENDA MEETING
NOVEMBER 21, 2016**

The Council Finance Committee of the Town of Los Gatos conducted a Special Meeting on Monday, November 21, 2017, at 4:00 p.m.

MEETING CALLED TO ORDER AT 4:00 P.M.

ROLL CALL

Present: Chair Barbara Spector, Vice Chair Steve Leonardis

Staff Present: Town Manager Laurel Prevetti, Finance Director Stephen Conway, Administrative Analyst Gitta Ungvari

Others Present: Sheldon Chavan, Chavan & Associates, LLP (Town's independent auditor)

Absent: None

VERBAL COMMUNICATIONS

None

OTHER BUSINESS

1. Approve Council Finance Committee meeting minutes of April 28, 2016.

MOTION: **Motion** by Steve Leonardis to approve Council Finance Committee meeting minutes of April 28, 2016. **Seconded** by Barbara Spector.

VOTE: **Motion passed unanimously.**

2. Recommendation to the Town Council to Receive the First Quarter Investment Report (July through September 2016) for Fiscal Year 2016/17 and Accept the Reconciled Demand Account Balances (February through June 2016) as restated for June 30, 2016.

Stephen Conway, Finance Director, presented the staff report.

Opened Public Comment.

Peter Hertan

- Commented on the importance of desk procedures and hiring temporary help in the case of vacancies.

Jak Van Nada

- Commented on his written correspondence provided to the Committee in a Desk Item which contained financial questions and suggestions to improve the residents' understanding of the Town's financial reporting.

Closed Public Comment.

The Committee members discussed the matter.

MOTION: **Motion** by Steve Leonardis to move Item 2 forward to full Town Council review based on the information received during the meeting. **Seconded** by Barbara Spector.

VOTE: **Motion passed unanimously.**

3. Recommendation to the Town Council to Receive the Fiscal Year 2016/17 First Quarter Budget Performance and Status Report for the Period July 1, 2016 – September 30, 2016.

Stephen Conway, Finance Director, presented the staff report.

Opened Public Comment.

Peter Hertan

- Commented on the importance of the Civil Grand Jury's 2011-12 Pension and Other Post-Employment Benefits (OPEB) Report.

Closed Public Comment.

Committee members discussed the matter.

MOTION: **Motion** by Barbara Spector to forward Item 3 to theTown Council for its review and consideration. **Seconded** by Steve Leonardis.

VOTE: **Motion passed unanimously.**

PAGE 3 OF 3

SUBJECT: DRAFT MINUTES OF THE COUNCIL FINANCE COMMITTEE MEETING OF
NOVEMBER 21, 2016

DATE: JANUARY 13, 2017

ADJOURNMENT

The meeting adjourned at 5:07 P.M.

Attest:

GITTA UNGVARI, FINANCE & BUDGET MANAGER



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE REPORT**

MEETING DATE: 01/23/2017

ITEM NO: 2

DATE: JANUARY 18, 2017
TO: COUNCIL FINANCE COMMITTEE
FROM: STEPHEN CONWAY, FINANCE DIRECTOR
SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO REVIEW AND ACCEPT THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR
ENDED JUNE 30, 2016

RECOMMENDATION:

Recommendation to the Town Council to review and accept the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016.

BACKGROUND:

The Town contracts with an independent certified public accountant to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds each fiscal year. The FY 2015/16 audit was performed by Chavan & Associates, LLP CPA's, an experienced firm specializing in audit services for California public agencies. The firm also prepared the Draft CAFR for the Town of Los Gatos (see Attachment 1).

The CAFR is a critically important document in that it is reviewed by the credit rating agencies annually and the financial data gleaned from this document is one of the primary reasons for the high ratings the Town is currently enjoying. In 2016 Moody's rating service upgraded the Town's credit rating from Aa1 to Aaa. Moody's press release in August 30, 2016 made the following comment: "The credit position for Los Gatos is extremely strong, and its Aaa rating is well above the median rating of Aa3 for cities nationwide. Key credit factors include a superior socioeconomic profile with a substantial tax base, and a very healthy financial position. The rating also incorporates a sizable pension burden with an exceptionally low debt liability."

DISCUSSION:

At the meeting, Finance staff will present to the Town Council Finance Committee the audited Comprehensive Annual Financial Report (CAFR) dated June 30, 2016. Town's CAFR has been

PREPARED BY: STEPHEN CONWAY
Finance Director

PAGE 2 OF 4

SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO REVIEW AND ACCEPT THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

DATE: JANUARY 18, 2017

DISCUSSION (cont'd):

awarded the Achievement in Excellence in Financial Reporting for sixteen consecutive years and staff will be submitting the Town's CAFR for award consideration by the January 31, 2017 deadline. Town staff will be discussing the audited financial results with the Committee focusing on the following:

Financial Section. The auditors have given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2016, (see the fourth paragraph of the auditor's opinion on Page 11 of the Financial Section of the report) giving reasonable assurance that the financial statements are "free of material misstatement."

Statement of Net Position. The Statement of Net Position (page 29) may serve as a useful indicator of a government's financial position. The Town had net assets of \$109.7 million at fiscal year end as compared to \$106.5 million the prior year, an overall increase of 2.9% for the fiscal year.

The Town's Net position increased by \$3,132,546 due primarily to General Fund revenues above expenditures of approximately \$3.3 million offset by use of governmental funds for capital expenditures in the Town's General Fund Appropriated Reserve (GFAR) capital projects fund.

The largest portion of the net assets, \$93.4 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$6.4 million are resources that are subject to external restrictions on how they may be used. The remaining \$9.8 million in net assets are unrestricted legally, but have been designated as to use in various reserve accounts or held in Internal Service Funds. Again, this is an overall financial position indicator and is not the amount of current resources available for budgetary purposes.

Management's Discussion and Analysis (MD&A) (pages 14 through 25)

Page 15 of the CAFR begins the MD&A section of the report wherein summaries are presented for the Town on an entity-wide basis and fund type basis. Information is provided in this section with a year-to-year view, explaining how fund balances have changed between fiscal years ending June 30, 2015 and June 30, 2016. Information is also presented on the adopted General Fund budget and any significant budget adjustments made during the FY 2015/16 fiscal year (page 22).

SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO REVIEW AND ACCEPT THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

DATE: JANUARY 18, 2017

DISCUSSION (cont'd):

Basic Financial Statements (pages 26 through 80, including footnotes)

Located within this section are basic financial statements, including the “entity-wide” Statement of Net Position and Statement of Activities, financial statements for the fund types including Governmental Funds (such as the General Fund), Proprietary Funds, Fiduciary Funds (Library Trust and Parking Assessment District), and the Private Purpose Trust Funds (Redevelopment Successor Agency). An important item for consideration is the General Fund Budget and Actual presented on page 35. Presented on this statement is a \$5.5 million excess of revenues over expenditures for the fiscal year. This result for the fiscal year provided a source of funding to restore the reserve for compensated absences to fully funded status and the Budget Stabilization reserve equal to the prior year level of \$6.6 million, leaving approximately \$2.6 million in funds available from FY 2015/16 to fund the proposed Strategic Priorities reserve for Council consideration in late January 2017.

The footnotes section provides details on significant items such as the Town’s cash and investments (Note 2 beginning on page 59), its long term obligations (Certificates of Participation) related to bonded debt (Note 6 page 65), the net pension liability is discussed in for both the Town’s miscellaneous and safety pension plans (Note 9 page 69), followed by a discussion of the Town’s other post-employment benefit plan (Note 10 page 75).

Required Supplementary Information (pages 82 through 86)

The Schedules of Pension Plan Contributions are provided in this section.

Supplementary Information (pages 88 through 106)

This section provides budget to actual information for “non-major” funds which represent less than 10% of the Town’s total assets/liabilities/revenues or expenditures.

Statistical Section (pages 112 through 128)

This section presents demographic statistics and ten year historical financial data for the Town, including information on assessed valuations, fund balances, debt, property tax rates, full-time equivalent history in terms of personnel, principle employers, and other financial and demographic disclosures.

CONCLUSION:

Mr. Sheldon Chavan, C.P.A., managing partner of Chavan & Associates, will be participating in the Committee meeting. If you have questions prior to the meeting, please contact Director Conway and staff will share responses to questions to the full Committee.

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SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO REVIEW AND ACCEPT THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

DATE: JANUARY 18, 2017

CONCLUSION (cont'd):

Upon review and approval of the CAFR by the Council Finance Committee staff anticipates bringing the CAFR forward to the Town Council for its consideration on Tuesday, February 7, 2017.

FISCAL IMPACT:

There is no fiscal impact to provide recommendation to the Town Council for this report.

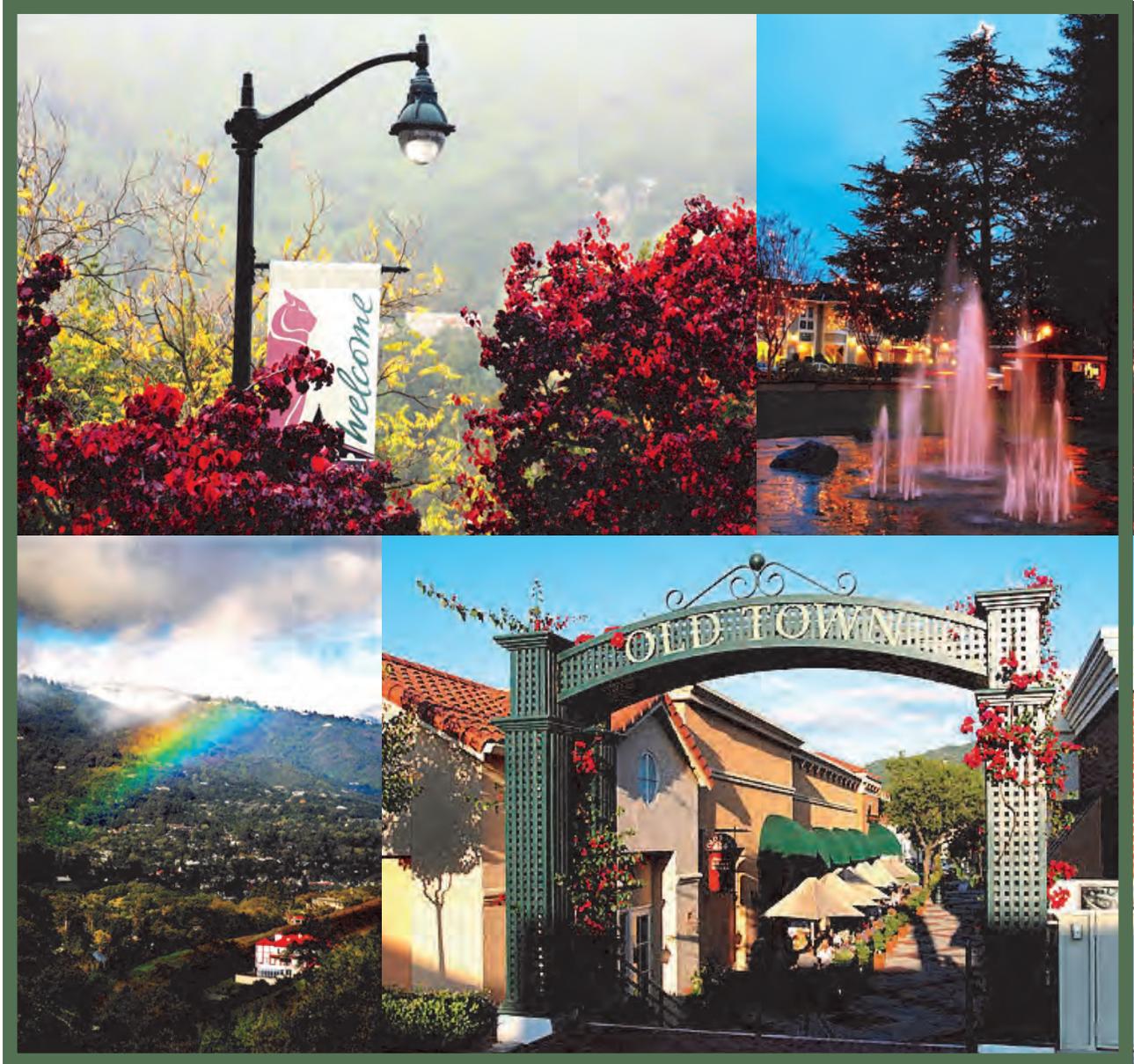
Attachments:

1. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.



TOWN OF LOS GATOS

CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cover Photos: Ken Benjamin

**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

**PREPARED BY THE
OFFICE OF THE TOWN MANAGER**

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TOWN HISTORY

The name Los Gatos comes from "El Rancho de Los Gatos." A ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880's. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people producing residential and commercial development. Highway 17 was constructed through the center of Town. Growth levelled off in the early 1970's, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal of the community. From the first 100-acre town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 31,376. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

As it exists now, Los Gatos' boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create the picturesque setting of the Town. In the midst of an increasingly uniform urban complex, this setting has attracted people with a preference for the Town's distinctive, high quality natural and urban environment.

The slow growth of the Town over an extended number of years has left the Town with a heritage of older, established residential areas and a downtown with many historic buildings representing the various eras in the Town's history. Protection of these historic resources is an important community goal. The Town's two museums, known as the Tait Avenue and Forbes Mill museums, also help to preserve the Town's valued history.

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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Introductory Section



TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

January 16, 2017

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2016. This report was prepared by the Finance Department in conjunction with the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2016, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This GASB Statement requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Comprehensive Annual Financial Report is organized into three sections:

- I. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials, Town administrative personnel, and an organization chart delineating organizational structure.
- II. The Financial Section includes the independent auditors' opinion, the MD&A, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- III. The Statistical Section includes both financial and non-financial data about the Town.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of Chavan & Associates LLP, the Town's independent certified public accountants.

This Comprehensive Annual Financial Report will be submitted to the Government Finance Officers Association for consideration to be awarded its Achievement of Excellence in financial reporting certification. This award is granted only to entities whose reports meet the highest standards of municipal financial reporting.

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as “Silicon Valley.” From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 30,505. This relatively slow growth over the last 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been, and remains a prominent goal for the community.

Five council members are elected at large for staggered four-year terms to govern the Town. The Mayor and Vice-Mayor are appointed by the Council from its own ranks and serve for one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees traditional municipal services such as Public Safety, Parks & Public Works, Community Development, a Public Library, and Town Administration including Human Resources and Finance.

This report includes all funds of the Town of Los Gatos. As of February 1, 2012, in accordance with Assembly Bill 1X26, the Redevelopment Agency (RDA) for the Town of Los Gatos was dissolved. Until its dissolution, the Town of Los Gatos Redevelopment Agency was governed by a board that was the same as the Town’s governing body. Therefore, the financial activities of the Redevelopment Agency through January 31, 2012 had been blended into the Town’s basic financial statements. As a result of the dissolution, the RDA Successor Agency private-purpose trust fund was created while the Certificates of Participation (COP) RDA Debt Service Fund and Redevelopment Agency Low & Moderate Housing Capital Projects Fund were closed out as of June 30, 2012 and are now being held in the Successor Agency Trust fund.

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the economy continues to improve and economically sensitive revenues, such as Property Tax, Transient Occupancy Tax, Business License Tax and License and Permit revenues increased. However, the Town’s Sales Tax revenue decreased slightly due to a change in business model from the Town’s largest sales tax generator (Netflix). The business model change impacted the taxability of internet commerce leading to substantial reduction in taxes collected from this historically significant sales tax generator. Recognizing the continuing loss of this significant revenue source, diversification remains a top priority for the Town. The Town continued outreach and support of downtown and local businesses through its Economic Vitality Program.

In past years, the Town has implemented a number of strategies to keep operating revenues in balance with ongoing operating expenditures. These steps included selected hiring freezes, the elimination of vacant positions, organizational realignments, job sharing, and departmental cost saving efficiencies, among other strategies, that allowed the Town to remain fiscally balanced during challenging economic times. Despite the ongoing strategic

reductions made in staffing and operating expenditures salary and benefits was the Town's largest expenditure, reflecting the personal touch required to deliver high quality services such as public safety, community development, and parks and public works.

General Fund revenues (including transfer-ins) increased by 6.5% from the prior year. Property tax revenues are a significant source of support for General Fund operations, comprising approximately 34% of General Fund revenues in FY 2015/16. The FY 2015/16 \$13.8 million property tax receipts were \$0.8 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture and educational opportunities. Los Gatos property values are anticipated to continue with moderate growth rates for the near term. Property taxes also increased moderately due to a change in property tax distribution due to the dissolution of the California redevelopment agencies, though this increase was a small portion of the loss of redevelopment tax increment previously collected prior to the redevelopment dissolution which occurred in February 2012.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 19% of General Fund revenues in FY 2015/16. The FY 2015/16 \$7.5 million sales tax receipts were \$0.7 million higher than the prior year's collection. The decline is largely due to the impact of the loss related to one major sales tax generator's change of business model wherein the bulk of annual sales are provided digitally which is exempt from sales and use tax under current law.

Effective February 1, 2012, redevelopment agencies were dissolved and suspended all activities, with the exception of the implementation of existing contracts and payment of enforceable obligations entered into prior to February 1, 2012. While the Successor Agency will continue to receive tax increment revenue to pay enforceable obligations, like debt service, funding for administrative services and various program reimbursements has been significantly reduced.

The Town is also preparing for an increase in pension employer rates. Town Council and staff are considering future opportunities to pro-actively manage and control cost escalation in its pension and other post employment benefits.

Despite the reductions to various sources of local government revenue and increasing costs due to unfunded federal and state mandates, the Town has maintained high service levels due to the General Fund's strong fiscal health through FY 2015/16. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR INITIATIVES

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$3.1 million in Town infrastructure and other capital asset improvements were made in FY 2015/16, including \$0.9 million in vehicle and equipment, \$0.7 million in building repairs and improvements, \$0.3 million in annual curb, gutter, sidewalk and retaining walls improvements, and \$0.7 million for street improvement projects including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety Town-wide. Town park improvements totaling

\$25,000, and \$1.0 million in construction in progress in various streets, building improvements and park projects.

Additional infrastructure improvements were scheduled in accordance with the Town's approved Capital Improvement Plan, and will continue into future years. All of these improvements are funded either through debt issuance, grants, or via revenues accumulated from prior year budget savings and/or excess revenues per Town Council policy.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal control is considered in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data, and
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh the benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined and available means the cash is received within forty-five days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred.

With the implementation of GASB 34, the Town now prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget and five-year capital improvement plan is adopted by the Town Council on a basis consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within

a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Chavan & Associates, LLP performs this function for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Gitta Ungvari, Finance and Budget Manager, Mark Gaeta, Accountant; Linda Isherwood, Analyst; Nicole Tram, Payroll Specialist; and Melissa Ynegas, Account Technician for their efforts in preparing this report.

Respectfully submitted,



Laurel Prevetti
Town Manager



Stephen D. Conway
Director of Finance & Administrative Services

**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2016**

TOWN COUNCIL

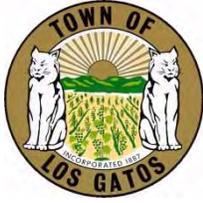
Mayor	Barbara Spector
Vice Mayor	Marico Sayoc
Council Member	Marcia Jensen
Council Member	Steven Leonardis
Council Member	Rob Rennie

COUNCIL APPOINTEES

Town Manager	Laurel Prevetti
Town Attorney	Robert Schultz

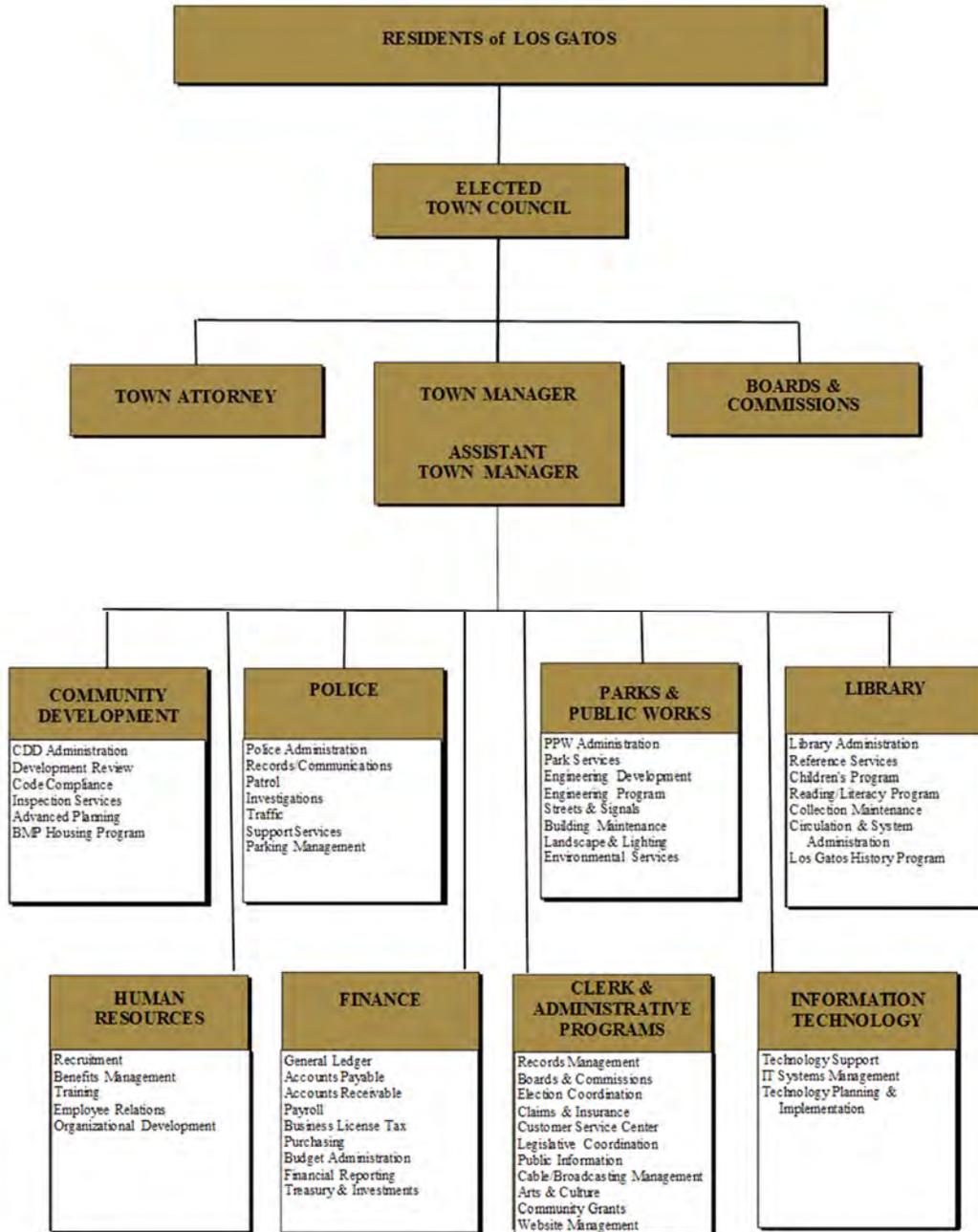
APPOINTED OFFICIALS

Assistant Town Manager	Vacant
Chief of Police	Matt Frisby
Community Development Director	Joel Paulson
Parks and Public Works Director	Matt Morley
Library Director	Dolly Goyal
Finance Director	Stephen Conway
Human Resources Director	Lisa Velasco



Town of Los Gatos

Organizational Structure





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Town's 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town'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 Town'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, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and required supplementary information, as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, combining individual non-major fund statements and schedules, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining individual non-major fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

New Accounting Principles

As discussed in Note 1 to the financial statements, the City adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2017 on our consideration of the Town'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 the Town's internal control over financial reporting and compliance.

C & A LLP

January 14, 2017
San Jose, California

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for fiscal year ending June 30, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Town assets exceeded its liabilities at the close of FY 2015/16 by \$109,663,676 (net position). Of this amount, \$9,893,807 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's Net position increased by \$3,132,546 due primarily to General Fund revenues above expenditures of approximately \$3.3 million offset by use of governmental funds for capital expenditures in the Town's General Fund Appropriated Reserve (GFAR) capital projects fund.
- Total fund balances for governmental funds at year end were \$50,755,362, an increase of \$5,417,491 (12%) from the prior year. Fund balances increased primarily due to higher than expected property tax, transient occupancy tax, and license and permits revenues as well as operational salary savings due to staff vacancies.
- At the end of FY 2015/16, fund balance for the General Fund was \$29,574,272, approximately 80% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets decreased by \$303,174 to \$93,383,855 net of depreciation because the fiscal year depreciation of infrastructure exceeded fiscal year additions to capital improvements as the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-Wide Financial Statements

The government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting.

The statement of net position – presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities – presents information showing how the Town’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, and general government. The Town has no business-type activities.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Town of Los Gatos Redevelopment Agency (the Agency) for which the Town was financially accountable. In accordance with Assembly Bill (AB) 1X26 which provides for the dissolution of all redevelopment agencies in the State of California, the Town of Los Gatos agreed to serve as the successor agency and thereby to hold the assets until they were distributed to other units of state and local government. In accordance with AB 1X26, the Town of Los Gatos Redevelopment Agency dissolved and ceased to operate as a legal entity on February 1, 2012.

Prior to February 1, 2012, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the Town. After February 1, 2012, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (RDA Successor Agency private-purpose trust fund) in the financial statements of the Town. Additional information on the dissolution of the RDA and this fiduciary fund can be found in Note 12 in the notes to basic financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – The Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it

provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: internal service funds. Proprietary funds are reported using the accrual basis of accounting. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and computer equipment, and for its risk management activities. The Internal Service funds have been included within governmental activities in the government-wide financial statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Included in fiduciary funds is the RDA Successor Agency private-purpose trust fund created upon the dissolution of the former Redevelopment Agency. The Trust Fund was created to hold the assets of the former Redevelopment Agency until they are transferred for governmental purposes to other entities, or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations.

Notes to basic financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 47-80 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$109.7 million at the end of the current fiscal year.

Town of Los Gatos Net Position Governmental Activities

	2016	2015
Current and Other Assets	\$ 76,803,285	\$ 72,604,823
Deferred Outflows_Pension	8,069,913	8,607,907
Capital Assets	93,383,855	93,687,029
Total Assets	<u>\$ 178,257,053</u>	<u>\$ 174,899,759</u>
Current Liabilities	15,658,568	16,513,842
Deferred Inflows-Pension	10,248,521	8,513,625
Long-term Liabilities Outstanding	42,686,288	43,341,162
Total Liabilities	<u>\$ 68,593,377</u>	<u>\$ 68,368,629</u>
Net Position		
Net Investment in Capital Assets	\$ 93,383,855	\$ 93,687,029
Restricted	6,386,014	5,663,182
Unrestricted	9,893,807	7,180,919
Total Net Position	<u>\$ 109,663,676</u>	<u>\$ 106,531,130</u>

Capital assets represent approximately 52% of the Town's total assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, *Net Investment in Capital Assets* decreased by \$303,174 as a result of approximately \$3.1 million, net of construction in progress, in capital improvements made during the fiscal year, offset by \$3.4 million in capital assets depreciation and retirements.

An additional portion of the Town's net position (5.8%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *unrestricted net position* represents approximately 7% of the Town's net position at year end.

Governmental activities

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2016
Governmental

	Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for Services	\$ 11,085,856	\$ 13,033,632
Operating Grants and Contributions	874,957	936,645
Capital Grants and Contributions	1,610,657	2,514,859
General Revenues:		
Property Taxes	13,763,458	12,931,603
Property Tax Increments		
Less : Election Amount		
Total Property Taxes	13,763,458	12,931,603
Sales Taxes	7,501,175	8,202,678
Franchise Taxes	2,258,892	2,215,430
Other Taxes	1,997,497	2,062,893
Motor Vehicle in Lieu	12,308	-
Investment Earnings	698,324	428,772
Miscellaneous	598,170	813,324
Special Item		
Total Revenues	\$ 40,401,294	\$ 43,139,836
Expenses:		
Police Department	15,676,518	\$ 12,644,221
Parks and Public Works	8,320,623	8,069,352
General Government	6,993,661	6,465,852
Community Development	3,227,224	4,047,738
Library Services	2,522,142	2,553,414
Redevelopment (Pmts to SA)		
Interest and fees		
Sanitation	528,580	491,359
Total Expenses	\$ 37,268,748	\$ 34,271,936
Change in net position	3,132,546	8,867,900
Net position, beginning	106,531,130	142,129,628
Prior Period Adjustment, GASB 68		(44,466,398)
Net Position - Beginning Adjusted		97,663,230
Net Position - Ending	\$ 109,663,676	\$ 106,531,130

As shown in the schedule above, governmental activities for the year increased the Town's net position by \$3,132,546. Key elements of the increase in net position are as follows:

- Property tax revenues collected for the Town accounted for 34% of total Town revenues. Property tax revenues for Town activities increased by \$0.8 million or 6.5%, from FY 2014/15 due primarily to the continued strong economy and the continued strong demand for housing in Los Gatos coupled with the impacts of several new developments being added to the tax roll.
- Sales tax revenue of \$7.5 million accounted for approximately 19% of Town total revenues for the year. The 8.5% decrease of approximately \$701,00 from the prior year collections is largely due to the timing of the final "triple flip" payment and the impact of the loss related to one major sales tax generator's change of business model wherein the bulk of annual sales are provided digitally which is exempt from sales and use tax under current law.
- Other taxes and miscellaneous revenues of \$1.9 million accounted for 5% of total revenues, decreasing by 3.2% from the prior year. This decrease was primarily the result of the lower amount of construction tax received from development activity as compared to the prior year.
- Investment earnings of \$698,324, net of amortized premiums, increased by \$269,552 from the prior year. This increase is due primarily to larger average portfolio monthly balances than the prior year and an approximate \$172,000 gain in investment portfolio market value above cost from the amounts calculated for the prior fiscal year end.
- Total expenditures increased by approximately \$3.0 million from the prior year. This increase was largely due to increased pension expenses, including an approximate \$2.15 million increase recorded as a year-end additional expense accrual added to public safety costs which accounts for the current year amortization of the changes in proportionate shares from the Town's public safety risk pool administered by the California Public Employees Retirement System.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of FY 2015/16, the Town's governmental funds reported combined ending fund balances of \$50,755,362, an

increase of \$5,417,491 in comparison with the prior year. Fund balances increased primarily due to higher than expected property tax, transient occupancy tax, license and permits revenues combined with operational salary savings due to staff vacancies.

Approximately 88% or \$44,369,348 of the total amount of governmental fund balances of \$50,755,362 is committed, assigned or unassigned fund balance, which is available for spending subject to Town direction and approval. The remainder of fund balance is restricted therefore not available for new spending but limited as to use for (1) providing for appropriated capital projects (\$6,200,681); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$185,333).

General Fund - The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the General Fund net fund balance increased by approximately 22% from prior year balances to \$29,574,272. This increase is primarily due to higher than expected receipt of economically sensitive revenues, combined operational expenditure savings.

Other Major Funds

General Fund Appropriated Reserve (GFAR) Capital Projects Fund. The GFAR fund is used as the primary capital projects fund for the Town and is used for the acquisition and construction of major capital projects in the Town. Fund balance decreased by \$730,509 to \$14,616,049. The decrease is primarily due to capital project expenditures made to invest in the Town's infrastructure.

Other Non-Major Other Governmental Funds. These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds increased by \$694,894 to \$6,565,041.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Internal Service Funds - The Town has seven internal service funds: Workers' Compensation, Self Insurance, Stores, Vehicle Maintenance, Facilities Maintenance, Management Information Systems, and Equipment Replacement funds. Revenues to these funds are generated from fees charged to the Town's operating programs for services provided.

The Equipment Replacement Fund charges replacement costs while the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at

year end for both funds was \$492,162 and \$107,692 respectively versus \$493,843 and \$86,111 in the prior year. The increase in operating income in the Vehicle Maintenance Fund from the prior year is attributable to reduced operating expenses incurred during the fiscal year. The small decrease in Equipment Replacement Fund is attributable to the cyclical nature of fleet purchases in accordance with the Town's fleet replacement schedule.

The Building Maintenance, Stores, and Management Information Systems funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail and office inventory and duplication charges, and management information services. Net operating income (loss) before transfers at year end was \$(24,913), \$100,661 and (\$4,828) respectively. Expenditures exceeded revenues in the Building Maintenance Fund due to increased heating, ventilation and air conditioning maintenance and unscheduled repair costs experienced during the year. Management information systems also experienced savings on anticipated repairs and replacements. The office store expenditures increased because of the additional copiers added to the maintenance lease during prior fiscal years and increased copy usage associated with large development proposals brought to the Town during the fiscal year.

The Workers' Compensation and Self-Insurance Funds charge premiums based on exposure levels by department for liability, property, workers' compensation and self insurance costs. Net operating income before transfers at year end was (\$289,718) and (\$146,868) respectively, versus (\$59,494) and \$13,947 in the prior year. The decrease of operating income for the year for these funds reflects the adverse experience of loss claims in the fiscal year as compared to the prior year, in both the Workers' Compensation and general liability claim payments and settlements.

GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:

Budget Adjustments

Comparing the FY 2015/16 original budget (or adopted) General Fund Expenditures of \$37,406,810 (excluding budgeted transfers-out) and an adjustment of \$728,575 in budgeted internal service fund equipment purchases for General fund use, the final budget amount of \$39,241,681 shows a net increase of \$214,471. Additions to the original budget included approved encumbrance carry-forwards of \$136,749, and additions of \$1,079,775 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carry-forwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$38,135,385	\$0	\$26,521	\$1,079,775	\$39,241,681

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year.

- \$362,080 increase for below market priced housing program for reacquisition and future resale of 108 Sierra Linda property.
- \$78,794 transfer from the General fund to provide funding support for capital project to evaluate traffic around schools.
- \$76,300 related to executive recruitment and labor negotiations legal costs.
- \$68,960 for increases authorized for environmental services including well testing and enhanced garbage recycling services.
- \$68,400 related to an increase to budget to reflect receipt of emergency performance grant used to purchase emergency mobile back up radio equipment.
- \$60,000 increase to the contractual agreement related to annual street tree trimming services.
- \$59,000 increase for materials handling technology installed in the library.
- \$52,220 to fund the increased costs related to completing the tenant improvements for the Old Library Re-use project.
- \$50,000 increase to legal services budget related to potential Highway 85 litigation required support.
- \$32,050 increase for consultant services in response to the cut through traffic problems.
- \$30,000 for the purchase of a new stage and an augmentation of budget for mandatory employee medical exams.
- \$26,521 increase due to approved encumbrance carry-forwards
- \$12,010 authorized increase legal services including small increase to hours of staffing for Deputy Town Attorney.

Comparing the FY 2015/16 final amended budget to the actual result shows \$3.1 million in savings due to operational cost savings primarily from savings related to staff vacancies.

Capital Assets

As of June 30, 2016, the Town's investment in capital assets for its governmental activity is recorded at \$93,383,855 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2015/16 the Town's \$3.1 million investment in capital assets for the current year represented approximately 2% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$1.0 million added to Construction in Progress for streets, building improvements and park projects;

- \$0.9 million in equipment purchases including \$331,000 in fleet replacements, \$119,500 in mobile audio visual equipment for police vehicles, \$44,000 in taser replacements, \$35,000 for police back up radios, \$35,000 for digital message boards, and \$15,000 for a replacement outdoor stage.
- \$0.7 million for street improvements;
- \$0.3 million for retaining walls and parking lot improvements;
- \$25,000 for various Town park improvement projects.

June 30, 2016
Town of Los Gatos
Net Investment in Capital Assets

	Governmental Activities
Infrastructure	44,260,028
Buildings	22,632,870
Land	20,333,684
Equipment	2,936,343
Construction in Progress	3,220,930
	\$ 93,383,855

Additional information on the Town’s capital assets is found in Note 5 of this financial report.

Economic Factors and Next Year’s Budgets and Rates

A product of an ongoing examination of how the Town provides cost-effective services, the Town’s budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

During the development and adoption of the Town’s FY 2016/17 budget, the Town Council and management considered the following factors:

- Despite proactive steps taken in prior years such as the payoff of the Town’s pension plan “side fund” and the creation of two new pension tiers with associated lower costs of employer pension benefits for both public safety and miscellaneous employees, the Town continues to be impacted by the continuing rising cost of pension related benefits. As a result of factors including collectively bargained increases to pension benefits during the early 2000’s when the economy was booming; the losses sustained in the California Public Employees Retirement System (CALPERS) pension plan’s investment portfolio in the great recession coupled with ongoing changes in assumptions made by CALPERS actuaries about expected earnings in the fund (i.e. “discount rate”) and life expectancies of its annuitant, the Town’s pension plan funding levels went from surplus to unfunded. The result is that nearly 61% of the miscellaneous and 46% of the employer contribution rate for safety employees rate is

attributable to paying down unfunded liability. Over the next five fiscal years, the Town's five year plan includes increasing costs in this expense and further changes in actuarial assumptions or lowering the discount rate (this change was approved by the CALPERS board in December 2016) are likely to increase this cost beyond current estimates. The Town's pension plan with CALPERS is currently funded at 73% of its required levels, a rate slightly above the average funded rate for local governments of approximately 72.6%.

- General property tax collections represent approximately 27.6% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections were expected to increase 4% from the prior year's tax collections. This forecast is based on data from the Santa Clara County Tax Assessor's Office. Los Gatos is one of the few cities in Santa Clara County that did not encounter significant loss of assessed valuation during the recent recession and expects positive growth for FY 2016/17.
- The Town anticipates a decrease in general sales tax for FY 2016/17. Sales tax estimates of \$8.2 million for FY 2016/17 were budgeted reflecting a slight decrease from the prior year's adopted sales tax budget. The negative impact is associated with increased on-line versus brick and mortar shopping, decreased gasoline prices, and by the continuing impact of the 2011 business model change in Netflix. Currently, Netflix represents approximately 11% of total sales taxes collected annually. With sales tax representing approximately 22% of the Town's General Fund revenues, any fluctuation in local sales tax collections will significantly impact the Town.
- The Town's investment portfolio experienced a slight increase in its overall weighted average annual yield, rising from 0.80% at June 30, 2015 to 0.85% at June 30, 2016. Anticipating continued low interest rates for FY 2016/17 coupled with reduced cash balances due to capital expenditures, investment earnings are expected to remain at the same level as the prior fiscal year.
- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2016/17 as personal and business related travel is expected to remain strong. Given the increase in travel activity, the FY 2016/17 TOT revenues were budgeted at \$1.9 million reflecting a 5.5% increase from the FY 2015/16 amended budget of \$1.8 million. At the November 8, 2016 election the Town of Los Gatos residents approved a ballot measure increase the TOT from 10% to 12%. Staff anticipated an additional \$100,000 revenue collected for FY 2016/17 due to the tax measure.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030, or phone (408) 354-6828.

Basic Financial Statements

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TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect of the entire Town's transactions is accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Position report the Town's total assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing the reader on the composition of the Town's net position (assets minus liabilities). The Statement of Net Position summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net position and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net position. From these components, the change in net position is computed and reconciled to the Statement of Net Position.

Both of these statements include the financial activities of the Town.

The Statement of Net Position, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town. The term "Basic Financial Statements" replaced the term "General Purpose Financial Statements" which is no longer used.

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 72,621,845
Restricted cash and investments	117,105
Receivables:	
Accounts	1,037,164
Interest	181,003
Intergovernmental	1,347,779
Materials, supplies and deposits	17,161
Long term notes receivables	1,481,228
Capital Assets:	
Nondepreciable	23,554,614
Depreciable, net of accumulated depreciation	69,829,241
Total Assets	\$ 170,187,140
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions and adjustments	\$ 8,069,913
Total Deferred Outflows of Resources	\$ 8,069,913
LIABILITIES	
Accounts payable	\$ 1,297,601
Accrued payroll and benefits	2,923,519
Due to other governments	15,128
Unearned Revenue	4,392,711
Deposits	5,876,071
Claims payable	1,153,538
Long-term liabilities:	
Due within one year	
Compensated absences	1,771,402
Due in more than one year	
Postemployment benefits	2,694,576
Net pension liabilities	37,651,871
Compensated absences	568,439
Total Liabilities	\$ 58,344,856
DEFERRED INFLOWS OF RESOURCES	
Differences from actual and projected pension plan amounts	\$ 10,248,521
NET POSITION	
Net investment in capital assets	\$ 93,383,855
Restricted for:	
Capital projects	6,200,681
Lighting and landscape repairs and maintenance	185,333
Total Restricted Net Position	6,386,014
Unrestricted	9,893,807
Total Net Position	\$ 109,663,676

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 6,993,661	\$ 1,517,012	\$ 15,291	\$ -	\$ (5,461,358)
Public safety	15,676,518	3,278,585	98,138	-	(12,299,795)
Parks and public works	8,320,623	1,516,108	749,300	1,610,657	(4,444,558)
Community development	3,227,224	4,359,146	-	-	1,131,922
Library services	2,522,142	46,192	12,228	-	(2,463,722)
Sanitation	528,580	368,813	-	-	(159,767)
Total Governmental Activities	<u>\$ 37,268,748</u>	<u>\$ 11,085,856</u>	<u>\$ 874,957</u>	<u>\$ 1,610,657</u>	<u>(23,697,278)</u>
General revenues:					
Taxes:					
Property taxes					13,763,458
Sales taxes					7,501,175
Franchise taxes					2,258,892
Other taxes					1,997,497
Motor vehicle in lieu					12,308
Investment earnings					698,324
Miscellaneous					598,170
Total general revenues					26,829,824
Change in Net Position					3,132,546
Net Position - Beginning					106,531,130
Net Position - Ending					<u>\$ 109,663,676</u>

The notes to the financial statements are an integral part of this statement.

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements:

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns has been discontinued along with the use of the General Fixed Assets and General Long-Term Debt Account Groups.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2016. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 38,147,030	\$ 18,075,902	\$ 6,382,461	\$ 62,605,393
Restricted Cash & Investments	-	13	94,412	94,425
Receivables:				
Accounts	847,695	19,036	143,780	1,010,511
Interest	181,003	-	-	181,003
Intergovernmental	1,176,203	39,640	131,936	1,347,779
Due from Other Funds	34,516	-	-	34,516
Total Assets	\$ 40,386,447	\$ 18,134,591	\$ 6,752,589	\$ 65,273,627
LIABILITIES				
Accounts Payable	\$ 683,836	\$ 377,707	\$ 874	\$ 1,062,417
Accrued Payroll and Benefits	2,887,514	-	-	2,887,514
Due to other governments	15,036	-	-	15,036
Unearned revenue	1,099,718	3,140,835	152,158	4,392,711
Deposits	5,876,071	-	-	5,876,071
Due to Other Funds	-	-	34,516	34,516
Compensated Absences	250,000	-	-	250,000
Total Liabilities	10,812,175	3,518,542	187,548	14,518,265
FUND BALANCE				
Restricted for:				
Capital Outlay	-	13	6,200,668	6,200,681
Repairs and Maintenance	-	-	185,333	185,333
Committed to:				
Budget Stabilization	6,621,808	-	-	6,621,808
Catastrophe	4,637,406	-	-	4,637,406
PERS Unfunded Liability	300,000	-	-	300,000
Almond Grove Street Project	8,459,973	3,696,000	-	12,155,973
Assigned to:				
Open Space	562,000	-	-	562,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Strategic Planning	2,600,000	-	-	2,600,000
Capital Projects	4,063,405	9,409,826	-	13,473,231
Carryover Encumbrances	99,284	-	-	99,284
Comcast PEG	-	50,000	-	50,000
Compensated Absences	2,089,843	-	-	2,089,843
Special Revenue Funds	-	-	179,040	179,040
Unassigned	-	-	-	-
Total Fund Balances	29,574,272	14,616,049	6,565,041	50,755,362
Total Liabilities and Fund Balances	\$ 40,386,447	\$ 18,134,591	\$ 6,752,589	\$ 65,273,627

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET
POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Fund Balance - Total Governmental Funds \$ 50,755,362

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS

Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. 93,383,855

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. 6,632,958

DEFERED OUTFLOWS OF RESOURCES

Contributions and similar items will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources. 7,867,905

DEFERRED INFLOWS OF RESOURCES

The difference between projections and actual results in pension plans is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position. (10,091,190)

LONG-TERM LIABILITIES

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

Net Pension Liabilities	\$	(35,582,025)	
Postemployment Benefits		(2,694,576)	
Compensated absences		(2,089,841)	(40,366,442)

LONG-TERM NOTES RECEIVABLES

In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue. 1,481,228

Net Position - Governmental Activities \$ 109,663,676

The notes to the financial statements are an integral part of this statement.

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

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 13,743,123	\$ -	\$ 28,096	\$ 13,771,219
Sales Taxes	7,501,175	-	-	7,501,175
Other Taxes	1,953,045	-	44,453	1,997,498
Licenses & Permits	4,977,565	276,229	188,339	5,442,133
Intergovernmental	1,539,672	356,534	677,269	2,573,475
Charges for Services	3,615,256	818,932	338,813	4,773,001
Fines and Forfeitures	879,264	-	13	879,277
Franchise Fees	2,258,892	-	-	2,258,892
Interest	620,895	29,159	48,254	698,308
Use of Property	31,723	-	-	31,723
Other	2,396,369	623	-	2,396,992
Total Revenues	39,516,979	1,481,477	1,325,237	42,323,693
EXPENDITURES				
Current:				
General Government	9,144,797	-	-	9,144,797
Public Safety	13,763,316	-	-	13,763,316
Parks and Public Works	6,287,789	-	19,477	6,307,266
Community Development	3,695,504	-	-	3,695,504
Library Services	2,332,268	-	-	2,332,268
Sanitation and Other	-	-	452,726	452,726
Capital Outlay	942,321	2,202,206	97,130	3,241,657
Total Expenditures	36,165,995	2,202,206	569,333	38,937,534
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,350,984	(720,729)	755,904	3,386,159
OTHER FINANCING SOURCES (USES)				
Transfers in	2,683,046	582,800	50,000	3,315,846
Transfers (out)	(581,014)	(592,580)	(110,920)	(1,284,514)
Total Other Financing Sources (Uses)	2,102,032	(9,780)	(60,920)	2,031,332
NET CHANGES IN FUND BALANCES	5,453,016	(730,509)	694,984	5,417,491
BEGINNING FUND BALANCES	24,121,256	15,346,558	5,870,057	45,337,871
ENDING FUND BALANCES	\$ 29,574,272	\$ 14,616,049	\$ 6,565,041	\$ 50,755,362

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 5,417,491

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets (additions)	\$ 3,107,570	
Current Year Depreciation	(3,410,744)	(303,174)

ACCRUAL OF NON-CURRENT ITEMS

The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported in the governmental funds:

Compensated absences	87,048
Postemployment benefits	517,814

PENSION PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.

(852,184)

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.

(1,796,188)

LONG TERM NOTES RECEIVABLES AND ASSOCIATED DEFERRED REVENUE

Interest income and proceeds from long term notes receivables is recorded on the Statement of Activities but is considered a resource not available for governmental funds

61,739

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 3,132,546

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 11,961,287	\$ 12,936,137	\$ 13,743,123	\$ 806,986
Sales Taxes	8,337,029	8,126,309	7,501,175	(625,134)
Other Taxes	2,757,000	3,107,000	1,953,045	(1,153,955)
Franchise Fees	2,127,660	2,127,660	2,258,892	131,232
Licenses & Permits	2,987,662	3,076,162	4,977,565	1,901,403
Intergovernmental	782,724	1,098,004	1,539,672	441,668
Charges for Services	2,369,224	2,786,451	3,615,256	828,805
Fines and Forfeitures	666,300	666,300	879,264	212,964
Interest	287,867	287,867	620,895	333,028
Use of Property	31,723	31,723	31,723	-
Other	4,691,257	4,699,827	2,396,369	(2,303,458)
Total Revenues	<u>36,999,733</u>	<u>38,943,440</u>	<u>39,516,979</u>	<u>573,539</u>
EXPENDITURES				
Current:				
General Government:				
Town Council	184,557	184,557	171,530	13,027
Town Attorney	268,592	308,963	296,258	12,705
Administrative Services	3,219,106	3,183,780	2,806,265	377,515
Non-Departmental	5,922,051	6,257,910	5,870,744	387,166
Total General Government	<u>9,594,306</u>	<u>9,935,210</u>	<u>9,144,797</u>	<u>790,413</u>
Public Safety	14,932,221	14,985,844	13,763,316	1,222,528
Community Development	4,046,424	4,056,672	3,695,504	361,168
Parks & Public Works	6,370,221	6,597,951	6,287,789	310,162
Library Services	2,463,638	2,577,394	2,332,268	245,126
Capital Outlay	728,575	1,088,610	942,321	146,289
Total Expenditures	<u>38,135,385</u>	<u>39,241,681</u>	<u>36,165,995</u>	<u>3,075,686</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(1,135,652)</u>	<u>(298,241)</u>	<u>3,350,984</u>	<u>3,649,225</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	474,218	633,422	2,683,046	2,049,624
Transfers Out	(622,177)	(581,014)	(581,014)	-
Total Other Financing Sources (Uses)	<u>(147,959)</u>	<u>52,408</u>	<u>2,102,032</u>	<u>2,049,624</u>
NET CHANGES IN FUND BALANCES	<u>\$ (1,283,611)</u>	<u>\$ (245,833)</u>	<u>5,453,016</u>	<u>\$ 5,698,849</u>
BEGINNING FUND BALANCE			<u>24,121,256</u>	
ENDING FUND BALANCE			<u>\$ 29,574,272</u>	

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS**

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF NET POSITION
 JUNE 30, 2016**

	Governmental Activities Internal Service Funds
ASSETS	
Current Assets:	
Cash & investments	\$ 10,016,452
Restricted cash & investments	22,680
Accounts Receivable	26,653
Materials, supplies, and deposits	17,161
Total current assets	10,082,946
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	2,471
Total Assets	\$ 10,085,417
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions	\$ 202,008
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 235,184
Accrued payroll and benefits	36,005
Due to other governments	92
Total current liabilities	271,281
Noncurrent liabilities:	
Claims payable	1,153,538
Net pension liabilities	2,069,846
Total noncurrent liabilities	3,223,384
Total Liabilities	\$ 3,494,665
DEFERRED INFLOWS OF RESOURCES	
Difference from actual and projected pension plan earnings	\$ 157,331
NET POSITION	
Net Investment in capital assets	\$ 2,471
Restricted for workers compensation claims	22,680
Unrestricted	6,610,278
Total Net Position	\$ 6,635,429

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 4,669,461
Interest	6
Use of money and property	191,526
Other local taxes	26,319
Other	154,527
	5,041,839
 OPERATING EXPENSES	
Salaries and related expenses	1,171,082
Insurance expenses	734,064
Depreciation	956
Services and Supplies	2,901,549
	4,807,651
 Total Operating Expenses	4,807,651
 Operating Income	234,188
 Transfers in (Note 4)	-
Transfers out (Note 4)	(2,031,332)
	(2,031,332)
 Net transfers	(2,031,332)
 Change in Net Position	(1,797,144)
 BEGINNING NET POSITION	8,432,573
 ENDING NET POSITION	\$ 6,635,429

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 5,037,681
Payments to suppliers	(2,804,590)
Payments to employees	(1,291,788)
Claims paid	(696,808)
Net cash provided (used) by operating activities	<u>244,495</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	-
Transfers Out	(2,031,333)
Net cash provided (used) by noncapital financing activities	<u>(2,031,333)</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	<u>(3,509)</u>
Net cash provided (used) by capital related financing activities	<u>(3,509)</u>
Net Increase(Decrease) in Cash and Investments	(1,790,347)
Cash and investments - beginning of year	<u>11,829,479</u>
Cash and investments - end of year	<u><u>\$ 10,039,132</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ 234,188
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	956
Change in assets and liabilities:	
Receivables, net	(4,154)
Other assets	12,457
Deferred outflows of resources	(26,295)
Net pension liabilities	158,188
Deferred inflows of resources	(259,208)
Accounts payable and other accrued expenses	(23,144)
Other accrued expenses	<u>151,507</u>
Cash Flows From Operating Activities	<u><u>\$ 244,495</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

RDA Successor Agency Private Purpose Trust Fund was established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to existing Redevelopment Agency obligations.

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements. Agency funds have no measurement focus.

Parking Improvement District Agency Fund was established to account for non-obligation bond debt service payments and assessments.

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

		Total Private Purpose Trust Funds
ASSETS		
Cash and investments (Note 2)	\$	2,155,923
Restricted cash and investments (Note 2)		1,963,660
Loans receivable (Note 3)		552,097
Capital assets (Note 5):		
Nondepreciable		5,257,422
Depreciable, net of accumulated depreciation		1,830,469
		11,759,571
Total Assets	\$	11,759,571
LIABILITIES		
Accounts payable	\$	2,907
Due to other governments (Note 13)		32
Interest payable		367,000
Long-term debt (Note 6):		
Due within one year		1,065,000
Due in more than one year		19,312,165
		20,747,104
Total Liabilities	\$	20,747,104
NET POSITION		
Held in trust	\$	(8,987,533)
		(8,987,533)
Total Net Position	\$	(8,987,533)

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Total
ADDITIONS	
Investment earnings	\$ 44,912
Gifts, bequests and endowments	71,171
Other	2,002,569
Total Additions	2,118,652
DEDUCTIONS	
Program expenses of former RDA	20,020
Payments to other governments	69,654
Interest and fiscal agency expenses of RDA	883,301
Library services	196,590
Depreciation expense	101,692
Total Deductions	1,271,257
CHANGE IN NET POSITION	847,395
NET POSITION - BEGINNING OF YEAR	(9,834,928)
NET POSITION - END OF YEAR	\$ (8,987,533)

The notes to the financial statements are an integral part of this statement.

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the “Town”) operates under a Council-Manager form of government and provides the following services; public safety (including police and emergency management), parks and public works, community development, library, public improvements, planning and zoning, and general administration services. Redevelopment services were provided primary through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2016 was 31,376.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government and any component units for which the Town is considered financially accountable.

B. Description of Blended Component Units

The Town did not report any component units as a part of the primary government because the Town Council was not the governing body of any entities and no separate entity provided services entirely to the Town.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 11, the Town participates in two joint ventures and public entity risk pool activities through formally organized separate legal entities. The financial activities of the ABAG PLAN Corporation (“ABAG”) and the Local Agency Workers’ Compensation Excess Joint Powers Authority (“LAWCX”) are not included in the accompanying basic financial statements as boards separate from and independent of the Town administer them.

D. Basis of Presentation

The Town’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meet the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

Internal service funds of the Town (which provide services primarily to other funds of the Town) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program in the Statement of Activities.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

E. Major Funds

GASB defines major funds and requires that the Town's major governmental funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, deferred outflows of resources, liabilities, deferred outflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

The Town also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, stores, vehicle maintenance, building maintenance, information technology (called management information systems), and equipment replacement.

Fiduciary Funds include Private-Purpose Trust Funds and agency funds used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

The Town reported the following Fiduciary Funds in the accompanying financial statements:

Library Private Purpose Trust Fund provides for the servicing of donations and bequests to the Town's Library Program and includes the following:

- **History Project Private Purpose Trust Fund** was established to provide for the servicing of donations, bequests, grant monies and expenditures to the history project partnership of Los Gatos Public Library and the Museum of Los Gatos.
- **Clelles Ness Private Purpose Trust Fund** was established by Ansten R. Ness, M.D. and the Board of Library Trustees for the Town of Los Gatos, as a memorial to his wife, Clelles Ness to use the income and principal of the trust estate to provide materials and services not ordinarily available from public funds.
- **Susan E. (Betty) McClendon Private Purpose Trust Fund** is a bequest to the Los Gatos Public Library from the estate of Susan McClendon was established to be used solely for children's services.
- **Barberra J. Cassin Private Purpose Trust Fund** is a bequest to the Town from the estate of Barberra J. Cassin was established to be distributed to the Los Gatos Public Library for the purpose of establishing an endowment fund, which is to be used for the support of science, the arts and humanities projects.

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RDA Successor Agency Private Purpose Trust Fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's Redevelopment Agency, which includes the following:

- Certificates of Participation issued to finance several capital improvement projects throughout the Town.
- Redevelopment projects and related property tax revenue.
- Affordable Housing Set-Aside Program obligations.
- Repayment of obligations incurred by the Town's Redevelopment Agency prior to its dissolution.

Parking Improvement District Agency Fund was established to account for non-obligation bond debt service payments and assessments. This fund was closed in 2015/16.

F. Basis of Accounting

The government-wide and fiduciary fund (except for agency funds) financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. Agency funds have no measurement focus.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers property tax revenues reported in the governmental funds to be available if the revenues are collected or are reasonably expected to be collected within sixty days after year-end. For revenues other than property taxes, the Town generally applies the sixty-day period rule but would make exceptions considering the *measurable* and *available* criteria. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and/or general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town applies all applicable GASB pronouncements for certain accounting and financial reporting guidance including those applicable to accounting and reporting for proprietary operations. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

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

Cash and Cash Equivalents - The Town's cash and cash equivalents are 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.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Investments - Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Materials, Supplies and Deposits - These assets are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/advances from other funds”. All other outstanding balances between funds are reported as “due to/from other funds”.

Advances - Advances between funds and due from/to other funds are offset by a nonspendable fund balance in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

As required by GASB, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. The Town depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

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The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Software	5-7 years
Infrastructure	20-40 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the Town's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25.0%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50.0%

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Position. The changes of the compensated absences were as follows:

Beginning Balance	\$ 2,448,697
Additions	1,370,064
Payments	(1,478,920)
Ending Balance	<u>\$ 2,339,841</u>
Current Portion	<u>\$ 1,771,402</u>

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Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General fund. Only compensated absences related to terminated employees are reported in the fund financial statements.

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

Long-Term Liabilities - In the government-wide financial statements and private-purpose trust funds long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net position by the Town that is applicable to a future reporting period, for example, prepaid items and deferred charges.

Deferred inflows of resources is an acquisition of net position by the Town that is applicable to a future reporting period, for example, unearned revenue and advance collections.

Net Position - In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

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Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Fund Balances - The Town does not have a policy identifying a minimum unassigned fund balance. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the remaining fund balances are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classifies governmental fund balances as follows:

Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Town Council.

Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Town Manager or the Finance Director.

Unassigned includes fund balances within the funds which have not been classified within the above mentioned categories.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Town would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Events - Management has considered subsequent events through January 14, 2017, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with

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generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure other than described in Note 15.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were

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adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.

6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual amendments were not material in relation to original appropriations.

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during for the year ended June 30, 2016.

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as commitments or assignments of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for the presentation in the current-year financial statements.

G. Accounting and Reporting Changes

GASB Statement No. 72 – In February, 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (fiscal year ending June 30, 2016). The implementation of GASB 72 did not have a significant impact on the City’s financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Effective date: the provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The implementation of this statement did not have a significant impact on the City's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The implementation of GASB 79 did not have a significant impact on the City's financial statements and did not result in any prior period restatements or adjustments.

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NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while existing funds have cash available for expenditures.

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments, since they must be held to maturity.

Cash Deposits with Banks and Custodial Credit Risk - California Law requires banks and savings and loan institutions to pledge government securities with a fair value of 110% of the Town's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance Corporation (FDIC).

The bank balance of the Town's cash deposits was \$24,242,641 as of June 30, 2016. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to \$250,000 for each bank. As of June 30, 2016, the Town's cash balances exceeded FDIC by \$23,742,641 but were collateralized as discussed above.

Investments - The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

Fair Value Measurements - GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Local Agency Investment Fund (LAIF) - The Town invests in the California State Treasurer's Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2016, LAIF had approximately \$74.5 billion in investments. Of that amount, 99.25% is invested in non-

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derivative financial products and .75% in structured notes and asset-backed securities. These investments are described as follows:

1. Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.
2. Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

Risk Disclosures - *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 the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on the following page that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on the following page shows the minimum rating under the actual rating of the Town's investments at year end.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment in money market fund and LAIF is not categorized as to custodial credit risk. Its U.S. Government Agency Securities investment is held by a third party financial institution under the third party's trust department's name and thus not exposed to custodial credit risk.

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2016.

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The following table summarizes the Towns policy related to maturities and concentration of investments:

Investment Type	Maximum Maturity	Maximum Portfolio Percentage
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	15%
Commercial Paper	180 days	15%
Medium Term Notes	3/5 years	15%
Collateralized CD's	5 years	15%
CA LAIF	NA	65%
Money Market Funds	NA	15%

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2016:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Concentration of Credit Risk	Rating	Input Level	Time to Mature (Years)	Weighted Average Maturity
U.S. Government Agency securities	\$ 48,074,050	\$ 94,425	\$ 48,168,475	91.60%	Aaa/AAA	Level 1/2	1.35	1.23
Government Securities Money								
Market Mutual Funds	233,030	-	233,030	0.44%	Not Rated	Level 2	n/a	n/a
LAIF	4,186,613	-	4,186,613	7.96%	Not Rated	Level 2	0.46	0.04
Total Investments	52,493,693	94,425	52,588,118	100.00%				
Cash Deposits with Banks	22,279,775	22,680	22,302,455					
Money Market Accounts	-	1,963,660	1,963,660					
Cash on hand at Town	4,300	-	4,300					
Total Cash and Investments	\$ 74,777,768	\$ 2,080,765	\$ 76,858,533					

⁽¹⁾ Limited to US Agency Obligations with liquid markets and readily determinable fair values, including FHLB, FNMA, Freddie Mac, FFBCB, the Federal Land Bank, and the TVA.

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

	Total Town	Fiduciary Funds	Totals
Cash and investments available for operations	\$ 72,621,845	\$ 2,155,923	\$ 74,777,768
Restricted cash and investments	117,105	1,963,660	2,080,765
Total cash and investments	\$ 72,738,950	\$ 4,119,583	\$ 76,858,533

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NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2016:

Description	Interest Rate	Maturity	Balance
General Fund:			
Open Doors Associates, Ltd.	7%	2024	\$ 942,016
Rehab Loan to Charities	Various	Various	159,000
Total General Fund			<u>1,101,016</u>
Community Development Block Grant Fund (CDBG):			
Active Home Loans	Various	Various	124,160
Open Doors Associates, Ltd.	7%	2024	98,660
Housing Conservation Loans	0-5%	Various	157,392
Total CDBG			<u>380,212</u>
Total Long-Term Notes Receivable - Government-wide Statement of Net Position			<u>1,481,228</u>
Successor Agency Affordable Housing:			
Project Match	Various	Various	<u>552,097</u>
Total Long-Term Notes Receivable			<u>\$ 2,033,325</u>

Open Doors Associates Ltd. And Mid-Peninsula Housing Coalition - The Town has cooperation agreements with these two developers and several other governmental agencies (the “Developers”). Under these agreements, the Developers constructed a 64-unit low and moderate-income housing project. To assist in financing this project, the Town advanced funds to these developers under notes, which are secured by deeds of trust subordinated by construction loans, permanent financing and other loans on the project up to a maximum of \$6.5 million.

Under a note dated April 21, 1992, the Town agreed to a loan with Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. As of June 30, 2016, \$942,016 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the project and advances by the Town under this note.

Active Home Loans and Housing Conservation Loans - The Town used CDBG Funds (funded through federal grants) to assist low and moderate income homeowners to improve their homes and to fund low income housing rental properties acquisition and rehabilitation. These loans are secured by deeds of trust.

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four or five bedroom single family homes. The property is to

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provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2016, no interest or principal payments have been made.

NOTE 4 - INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2016, the Non-Point Source Maintenance Fund owed the General Fund \$34,516 for cash shortages.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2016 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 2,683,046	\$ 581,014
Appropriated Reserves Fund	582,800	592,580
Nonmajor Gov't Funds	50,000	110,920
Internal Service Funds	-	2,031,332
Total Transfers	\$ 3,315,846	\$ 3,315,846

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NOTE 5 - CAPITAL ASSETS

Changes in the Town's capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2015	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2016
Capital Assets not Being Depreciated:				
Land	\$ 20,333,684	\$ -	\$ -	\$ 20,333,684
Construction in Progress	2,235,457	985,473	-	3,220,930
Total Capital assets not Being Depreciated	<u>22,569,141</u>	<u>985,473</u>	<u>-</u>	<u>23,554,614</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	28,457,429	360,830	-	28,818,259
Equipment & Vehicle	9,811,943	773,611	62,941	10,522,613
Infrastructure - All Other	22,038,255	100,540	-	22,138,795
Infrastructure - Streets	53,984,080	887,116	-	54,871,196
Total capital Assets Being Depreciated	<u>114,291,707</u>	<u>2,122,097</u>	<u>62,941</u>	<u>116,350,863</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	5,597,926	587,463	-	6,185,389
Equipment & Vehicle	7,176,400	472,811	62,941	7,586,270
Infrastructure - All Other	5,147,038	726,643	1,619,696	4,253,985
Infrastructure - Streets	25,252,455	1,623,827	(1,619,696)	28,495,978
Total Accumulated Depreciation	<u>43,173,819</u>	<u>3,410,744</u>	<u>62,941</u>	<u>46,521,622</u>
Net Capital Assets Being Depreciated	<u>71,117,888</u>	<u>(1,288,647)</u>	<u>-</u>	<u>69,829,241</u>
Governmental Activity Capital Assets, Net	<u>\$ 93,687,029</u>	<u>\$ (303,174)</u>	<u>\$ -</u>	<u>\$ 93,383,855</u>

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows:

Governmental Activities	Depreciation Expense
General Government	\$ 131,319
Public Safety	299,280
Parks & Public Works	2,498,953
Library	391,339
Sanitation	89,854
Total Governmental Activities	<u>\$ 3,410,745</u>

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Changes in the RDA Successor Agency trust fund capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2015	Adjustments and Additions	Retirements	Balance at June 30, 2016
Capital Assets not Being Depreciated:				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total Capital assets not Being Depreciated	5,257,422	-	-	5,257,422
Capital Assets Being Depreciated:				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total capital Assets Being Depreciated	4,067,708	-	-	4,067,708
Less Accumulated Depreciation for:				
Buildings and Improvements	2,135,547	101,692	-	2,237,239
Total Accumulated Depreciation	2,135,547	101,692	-	2,237,239
Net Capital Assets Being Depreciated	1,932,161	(101,692)	-	1,830,469
Governmental Activity Capital Assets, Net	\$ 7,189,583	\$ (101,692)	\$ -	\$ 7,087,891

NOTE 6 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2016:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 7,745,000	\$ 310,000	\$ 7,435,000	\$ 320,000	\$ 7,115,000
2010 COP	2.5-4.25%	2028	15,675,000	13,130,000	715,000	12,415,000	745,000	11,670,000
Subtotal COP's			26,400,000	20,875,000	1,025,000	19,850,000	1,065,000	18,785,000
Premiums			753,095	564,820	37,655	527,165	-	527,165
Total Long-Term Debt			\$ 27,153,095	\$ 21,439,820	\$ 1,062,655	\$ 20,377,165	\$ 1,065,000	\$ 19,312,165

2002 Certificates of Participation (2002 COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 COPs, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town had pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

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2010 Certificates of Participation (2010 COPs) - On June 1, 2010, \$15,675,000 of 2010 COPs were issued to finance the acquisition, construction, and improvement of a library on the Town’s Civic Center campus, to be owned and operated by the Town. Principal payments are due annually on August 1, with interest payments due semi-annually on February 1 and August 1.

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 2002 and 2010. Under the agreements, the Agency will use available net tax increment revenues resulting from the projects’ effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreements for the projects. Net tax increment revenues are all taxes allocated to and paid into the Successor Agency private-purpose trust fund.

Future debt service requirements of the 2002, and 2010 Certificates of Participation (collectively the “COPs”) as of June 30, 2016, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,065,000	\$ 858,303	\$ 1,923,303
2018	1,105,000	809,739	1,914,739
2019	1,150,000	759,073	1,909,073
2020	1,195,000	710,024	1,905,024
2021	1,250,000	658,494	1,908,494
2022-2026	7,105,000	2,387,263	9,492,263
2027-2031	6,330,000	753,600	7,083,600
2032	650,000	16,250	666,250
Total COP Debt Service	\$ 19,850,000	\$ 6,952,746	\$ 26,802,746

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled \$1,963,658 as of June 30, 2016. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. There was no non-obligated debt outstanding as of June 30, 2016.

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NOTE 8 - FUND BALANCES

Fund balance for governmental funds is reported in classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

As of June 30, 2016, fund balances were classified as follows:

	Beginning Balance	Reclassifications	Reclassified Beginning Balance	Additions	Deletions	Ending Balance
Restricted for:						
Capital Outlay	\$ 5,482,974	\$ -	\$ 5,482,974	\$ 717,707	\$ -	\$ 6,200,681
Repairs and Maintenance	180,208	-	180,208	5,125	-	185,333
Committed to:						
Budget Stabilization	-	6,621,808	6,621,808	-	-	6,621,808
Catastrophe	-	4,178,192	4,178,192	459,214	-	4,637,406
PERS Unfunded Liability	-	-	-	300,000	-	300,000
Almond Grove Street Project	-	-	-	12,155,973	-	12,155,973
Assigned to:						
Open Space	562,000	-	562,000	-	-	562,000
Postemployment Medical	400,000	-	400,000	-	(400,000)	-
Parking	1,460,210	-	1,460,210	-	-	1,460,210
Sustainability	140,553	-	140,553	-	-	140,553
Strategic Planning	-	-	-	2,600,000	-	2,600,000
Productivity Enhancements	100,000	-	100,000	-	(100,000)	-
Economic Uncertainty	4,178,192	(4,178,192)	-	-	-	-
Capital Projects	23,348,498	-	23,348,498	-	(9,875,267)	13,473,231
Carryover Encumbrances	99,284	-	99,284	-	-	99,284
Comcast PEG	49,377	-	49,377	623	-	50,000
Revenue Stabilization Fund	6,621,808	(6,621,808)	-	-	-	-
Special Studies	490,000	-	490,000	-	(490,000)	-
Compensated Absences	-	2,017,892	2,017,892	71,951	-	2,089,843
Special Revenue Fund	206,875	-	206,875	-	(27,835)	179,040
Unassigned	2,017,892	(2,017,892)	-	-	-	-
Total Fund Balance - All Governmental Funds	\$ 45,337,871	\$ -	\$ 45,337,871	\$ 16,310,593	\$ (10,893,102)	\$ 50,755,362

During the year, the Town reviewed its fund balance policies and resolutions which resulted in the reclassification of beginning fund balance in the General Fund as noted above. The Town determined that fund balances assigned for economic uncertainty and revenue stabilization met the criteria to be classified as stabilization agreements that met the definition of committed fund balance based on action taken by Town Council. In addition, management had intended the amount previously reported as unassigned fund balance to be reported as assigned for compensated absences. Since these reclassifications did not impact total fund balance and at the time of discovery the issuance of the 2015/16 comprehensive annual financial report was imminent, the June 30, 2015 audited financial statements were not required to be reissued and no revisions were required to be made.

Restricted

Capital Outlay funded from storm drain fees, construction taxes and debt proceeds are legally restricted for major capital projects.

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Repairs and Maintenance reflects legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

Committed

Budget Stabilization committed fund balance will be used to mitigate cyclical changes in locally generated revenues from temporary downturns in the local economy and/or “one-time” uses that are expected to result in future efficiencies and/or budgetary savings.

Catastrophic committed fund balance shall be used to mitigate costs associated with unforeseen emergencies such as a local disaster or other catastrophic event.

PERS Unfunded Liability committed fund balance will be used to fund net pension liabilities for the Town’s Miscellaneous and Safety pension plans administered by CalPERS.

Almond Grove Street Project committed fund balance will be used for the infrastructure repairs, improvements and construction along Almond Grove Street.

Assigned

Open Space assigned fund balance will be used to make selective open space acquisitions.

Postemployment Medical assigned fund balance will be used to aid in funding actuarially determined requirements for retiree medical costs.

Parking assigned fund balance will be used to mitigate parking issues within the Town.

Sustainability assigned fund balance will be used to fund ongoing sustainability initiatives and programs.

Strategic Planning assigned fund balance will be used to fund Town Council identified strategic priorities including infrastructure, unfunded liability reduction, and strategic operating budget allocations based upon Town Council direction.

Productivity Enhancements assigned fund balance will be used to fund requests that result in streamlining or improving existing service levels.

Capital Projects assigned fund balance will be used for the acquisition and construction of capital facilities.

Carryover Encumbrances assigned fund balance will be used for encumbered items re-appropriated in the following year.

Comcast PEG assigned fund balance will be used to fund capital improvements linked to the televising of council and planning commission meetings.

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Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2016 that were not an obligation of the General Fund because of their long-term nature.

Special Revenue Fund assigned fund balance will be used for the activities of the respective revenue fund.

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Plan Descriptions

All qualified employees are eligible to participate in the Town's Miscellaneous agent multiple employer defined benefit pension plan or the Safety cost-sharing multiple employer defined benefit pension plans (the Plans) administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on age at retirement, highest salary for either a one or three year period and years of credited service. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous</u>		<u>Safety</u>
	<u>Tier 1</u>	<u>PEPRA</u>	
Hire date	N/A	On or after January 1, 2013	N/A
Benefit formula	2% @ 55	2% @ 62	3% @ 50
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	50	52	50
Monthly benefits as a % of eligible compensation	1% to 2.5%	1% to 2.5%	3.00%
Required employee contribution rates	7.00%	6.25%	9.00%
Required employer contribution rates	25.43%	6.25%	32.36%

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Employees Covered

At June 30, 2016, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	106	36
Transferred	89	14
Separated	80	4
Retired	205	65
Total	480	119

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plans were as follows:

	Employer Contributions	Employee Contributions
Miscellaneous	\$ 1,968,043	\$ 679,796
Safety	\$ 2,153,861	\$ 588,655

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions Pension Liability

As of June 30, 2016, the Town reported net pension liabilities for each plan as follows:

	Net Pension Liability
Miscellaneous	\$ 23,182,965
Safety	14,468,906
Total Net Pension Liability	\$ 37,651,871

The Town's net pension liability for the Safety Plan is measured as the proportionate share of the net pension liability while the Miscellaneous plan's net pension liability is a direct calculation based on its actuarial study and is not proportionate. The net pension liability of all the Plans are measured as of June 30, 2015, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Town's proportion of the net pension liability for the Safety Plan was based on a projection of the Town's long-term share of

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contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of June 30, 2014 and 2015 was as follows:

	Safety
Proportion - June 30, 2014	0.2859%
Proportion - June 30, 2015	0.2108%
Change	-0.0751%

The following is a summary of the changes in the total pension liability, fiduciary net position and net pension liability of the Town's Miscellaneous Plan as of June 30, 2016:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Beginning Balance	\$ 88,510,577	\$ 67,099,375	\$ 21,411,202
Service Costs	1,491,925	-	1,491,925
Interest on Total Pension Liability	6,483,032	-	6,483,032
Changes of Assumptions	(1,513,132)	-	(1,513,132)
Difference Between Actual and Expected Experience	(623,495)	-	(623,495)
Employer Contributions Subsequent to MD - Actual (Employer contributions)	-	26,278	(26,278)
Net Plan to Plan Resource Movement	-	22,561	(22,561)
Employer Contributions	-	1,941,765	(1,941,765)
Employee Contributions	-	679,796	(679,796)
Net Investment Income	-	1,470,873	(1,470,873)
Employee Contribution Refunds and Benefit Payments Prop Share	(4,748,786)	(4,748,786)	-
Administrative Expenses	-	(74,706)	74,706
Net Changes	1,089,544	(682,219)	1,771,763
Ending Balance	\$ 89,600,121	\$ 66,417,156	\$ 23,182,965

For the year ended June 30, 2016, the Town recognized pension expense of \$4,563,036.

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At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,243,177	\$ -	\$ 1,594,991	\$ -
Changes in assumptions	-	(792,593)	-	(845,098)
Differences between expected and actual experiences	-	(326,593)	-	(183,742)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	19,362	-	4,212,383	(7,029,235)
Net differences between projected and actual earnings on plan investments	-	(642,958)	-	(428,302)
Totals	<u>\$ 2,262,539</u>	<u>\$ (1,762,144)</u>	<u>\$ 5,807,374</u>	<u>\$ (8,486,377)</u>

The Town reported \$3,838,168 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous	Safety
2016	\$ (1,462,852)	\$ (3,183,567)
2017	(547,154)	(3,183,567)
2018	(446,793)	(2,617,369)
2019	714,017	498,126
Totals	<u>\$ (1,742,782)</u>	<u>\$ (8,486,377)</u>

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Actuarial Assumptions

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

CalPERS will continue to check the materiality of the difference in calculation until such time as they changes their methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund

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cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	9.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

- (a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.65%
Net Pension Liability	\$ 34,581,754	\$ 20,370,080
Current Discount Rate	7.50%	7.65%
Net Pension Liability	\$ 23,182,965	\$ 14,468,906
1% Increase	8.50%	8.65%
Net Pension Liability	\$ 13,792,054	\$ 6,419,323

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Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

The Town recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town’s future cash flows based on GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Because the Town adopted the requirements of GASB 45 prospectively, recognition of the liability accumulated from prior years will be phased in over ten years, commencing with the 2009 liability.

Plan Description - The Town makes contributions to California Employer’s Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare plan administered by the PERS. The purpose of the CERBT Fund is to provide California government employers with a trust through which they may prefund retiree medical costs and Other Post-Employment Benefits (OPEB). The Town uses CERBT as its investment vehicle and requests disbursements on an as needed basis to reimburse the Town for the cost of retiree health insurance benefits. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the year ended June 30, 2016, the Town contributed \$2,443,424 to the plan, including \$943,424 for current premiums and an additional \$1,500,000 to prefund benefits. All related obligations are paid from the Town’s General Fund.

Annual OPEB Cost and Net OPEB Obligation - As of June 30, 2016 and for the year then ended, the Town’s Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

NOO as of June 30, 2015	\$	3,212,390
Annual OPEB Cost		
Annual Required Contribution		1,913,000
Interest on NOO		233,000
NOO adjustment		(220,390)
Net annual OPEB cost		1,925,610
Contributions made (includes benefit payments)		(2,443,424)
NOO as of June 30, 2016	\$	2,694,576

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Trend Information

Year	Actual Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 2,617,000	\$ 2,053,856	78%	\$ 4,048,004
2015	1,323,856	2,159,470	163%	3,212,390
2016	1,925,610	2,443,424	127%	2,694,576

Plan Actuarial Value and Funding Progress

As of June 30, 2016, the plan was funded as follows:

Actuarial accrued liability (AAL)	\$ 22,477,000
Value of plan assets	<u>9,957,565</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 12,519,435</u>
Funded ratio (value of plan assets/AAL)	44.30%
Projected covered payroll (active Plan members)	\$ 14,910,000

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Ultimate investment return of 7.25% (upward trend 0.25%-0.30% per year to 7.25% in FY 17/18)
2. Projected salary increases of 3.25%.
3. The annual healthcare cost trend ultimate rate is 5%. The select rates were 7.5%-7.8% depending on plans but were reduced to the ultimate rate in 2021.
4. Total inflation is assumed to increase 3% annually.
5. Amortization method: Level percentage of payroll.
6. Amortization period:
 - a. 30-year closed period for initial unfunded actuarial accrued liability (UAAL) (23 years remaining as of June, 30, 2016)
 - b. 20-year closed period for method, assumption, and plan changes
 - c. 15-year closed period for gains and losses; and
 - d. Maximum 30 year combined period

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

7. Actuarial method for valuing assets: Investment gains and losses spread over a 5-year rolling period, not less than 80% or more than 120% of market value.

Funded Status per Valuation Date (Required Supplementary Information)

Valuation Date	Entry Age Accrued Liability	Actuairal Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2011	\$ 22,121,000	\$ 1,947,000	\$ 20,174,000	8.8%	\$ 14,123,000	142.8%
6/30/2013	19,211,000	4,652,000	14,559,000	24.2%	14,440,000	100.8%
6/30/2015	22,477,000	9,829,000	12,648,000	43.7%	14,910,000	84.8%

NOTE 11 - RISK MANAGEMENT

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authorities within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Association of Bay Area Governments PLAN Corporation (ABAG) - The Town participates in ABAG, which covers general liability claims in the amount up to \$5,000,000 plus \$15,000,000 in excess liability for total coverage of \$20,000,000 per occurrence. The Town has a deductible or uninsured liability of up to \$50,000 per claim. ABAG also provides all risk property coverage of \$100,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property damage and a \$10,000 deductible for vehicle damage. Once the Town’s deductible is met, ABAG becomes responsible for payment of all claims up to the limit. Financial statements may be obtained from ABAG at 375 Beale Street, San Francisco, CA 94105.

Local Agency Workers’ Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAWCX for workers compensation claims coverage. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town’s deductible is met, LAWCX becomes responsible for claims up to \$1,000,000. For claims greater than \$1,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 1750 Creekside Oaks Dr., Suite 200, Sacramento, California, 95833. The Town has not significantly reduced its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims - The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductibles, or uninsured portion of these claims.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2016:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2014	\$ 795,487	\$ 353,808	\$ 1,149,295
Claims incurred	965,800	(66,621)	899,179
Claims paid	(892,063)	(154,339)	(1,046,402)
Claims payable balance - June 30, 2015	869,224	132,848	1,002,072
Claims incurred	1,059,523	474,639	1,534,162
Claims paid	(894,681)	(488,015)	(1,382,696)
Claims payable balance - June 30, 2016	<u>\$ 1,034,066</u>	<u>\$ 119,472</u>	<u>\$ 1,153,538</u>

NOTE 12 - REDEVELOPMENT AGENCY DISSOLUTION

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the Town that previously had reported a redevelopment agency as a blended component unit.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Federal and State Grants - The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

Litigation - The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

Successor Agency - As of June 30, 2016, the Successor Agency trust fund reported a net deficit of \$9,510,605.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Encumbrances - As of June 30, 2016, the town had the following encumbered balances that were carried into the next fiscal year:

General Fund	\$ 388,889
Appropriated Reserves Fund	4,075,878
Nonmajor Governmental Funds	<u>1,393,925</u>
Total Encumbrances	<u>\$ 5,858,692</u>

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

In January of 2011, the Redevelopment Agency entered into a public improvement grant and cooperative agreement with the Town for the purpose of funding the acquisition of public land and designing and constructing various public improvements to be owned by the Town provided that the projects were in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan.

The improvement plan, as identified in the agreement, called for approximately \$24 million to be granted to the Town for the following projects:

- a. Expansion and improvement of current and new downtown parking
- b. Highway 9 improvements from Highway 17 to Monte Sereno
- c. Almond Grove Area street, sidewalk and other improvements
- d. Downtown Los Gatos gateways, signage, banners and art
- e. Storm drain, retaining wall, street and other improvements
- f. New Los Gatos library building

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

Affordable Housing Cooperative Agreement

In March of 2011, the Redevelopment Agency entered into an affordable housing cooperative agreement with the Town for the purpose of funding affordable housing projects and programs to be developed and/or administered by the Town in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan. The improvement plan, as identified in the agreement, called for approximately \$16 million to be granted to the Town for the following projects:

- a. Development of affordable housing at 224 Main St.
- b. Development of affordable housing at Dittos Lane
- c. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos
- d. Partnerships for the conversion of existing residential developments dedicated to affordable housing

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

NOTE 15 - SUBSEQUENT EVENT CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM LOWERS DISCOUNT RATE

In an effort to enhance the long terms fiscal sustainability of its pension plans state-wide, the California Public Employees' Retirement System (CalPERS) Board of Administration voted on December 21, 2016 to lower the discount rate from 7.5 percent to 7.0 percent over the next three years. The discount rate changes are to be implemented over three fiscal years in the following step reductions:

- FY 2017-2018: 7.375%
- FY 2018-2019: 7.25%
- FY 2019-2020: 7.00%

Lowering the discount rate, also known as the assumed rate of return, is expected to result in increased employer required contributions for Town's miscellaneous and safety plans for normal costs and the payment related for amortization of the Town's unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. Normal cost is the cost of pension benefits for one year.

The three-year reduction of the discount rate will result in average employer rate increases of about 1 percent to 3 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2 percent to 5 percent increase for most safety plans. Additionally, CalPERS reported that the Town can expect a 30 to 40 percent increase in their current unfunded accrued liability payments.

No actuarial valuations or future employer contribution rates are available from CALPERS at this time. The Town estimates the potential financial impact beginning in fiscal year 2018/19 is that barring unanticipated asset valuation gains, the annual Town employer pension contributions may rise above current five year forecast projections in a range from \$355,000 to \$950,000 per year based upon the CALPERS press release projections.

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Required Supplementary Information

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
PENSION SCHEDULES REQUIRED BY GASB 68

Schedule of Pension Plan Contributions

Schedule of Proportionate Share of Net Pension Liability – CalPERS Safety Cost Sharing Plan

TOWN OF LOS GATOS
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
Safety Plan		
Contractually Required Contributions (Actuarially Determined)	\$ 1,687,972	\$ 2,332,053
Contributions in Relation to Actuarially Determined Contributions	1,687,972	2,332,053
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll		
Contributions as a Percentage of Covered Payroll	32.36%	43.87%
Miscellaneous Plan		
Contractually Required Contributions (Actuarially Determined)	\$ 2,267,936	\$ 2,234,426
Contributions in Relation to Actuarially Determined Contributions	2,267,936	2,234,426
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll		
Net Pension Liability as a Percentage of Covered Payroll	259.95%	214.40%
Contributions as a Percentage of Covered Payroll	25.43%	22.37%

Notes to Schedule:

Valuation Date: June 30, 2014
Assumptions Used: Entry Age Method used fro Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the second year of implementation, therefore only two years are shown.

TOWN OF LOS GATOS
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CALPERS SAFETY COST SHARING PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
Safety Plan		
District's Proportion of Net Pension Liability	0.21080%	0.28588%
District's Proportionate Share of Net Pension Liability	\$ 14,468,906	\$ 17,788,690
District's Covered Employee Payroll	\$ 5,215,952	\$ 5,316,217
District's Proportionate Share of NPL as a % of Covered Employee Payroll	277.40%	334.61%
Plan's Fiduciary Net Position as a % of the Total Pension Liability	75.91%	75.66%

** Fiscal year 2015 was the second year of implementation, therefore only two years are shown.

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Supplementary Information

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
NONMAJOR GOVERNMENTAL FUNDS

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Capital Projects Funds:

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5. The revenues must be used for the maintenance and construction of streets.

Special Revenue Funds:

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Lighting and Landscape Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

**TOWN OF LOS GATOS
 APPROPRIATED RESERVES FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (GAAP)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Other taxes	\$ -	\$ -	\$ -	\$ -
Licenses & permits	288,000	288,000	276,229	(11,771)
Intergovernmental	160,000	356,534	356,534	-
Charges for services	931,000	357,873	818,932	461,059
Interest	-	-	29,159	29,159
Other	50,000	-	623	623
Total Revenues	<u>1,429,000</u>	<u>1,002,407</u>	<u>1,481,477</u>	<u>479,070</u>
EXPENDITURES				
Capital outlay	4,641,126	2,086,705	2,202,206	(115,501)
Total Expenditures	<u>4,641,126</u>	<u>2,086,705</u>	<u>2,202,206</u>	<u>(115,501)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,212,126)</u>	<u>(1,084,298)</u>	<u>(720,729)</u>	<u>363,569</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	670,000	770,654	582,800	(187,854)
Transfers (out)	(209,808)	(209,898)	(592,580)	(382,682)
Total Other Financing Sources (Uses)	<u>460,192</u>	<u>560,756</u>	<u>(9,780)</u>	<u>(570,536)</u>
CHANGE IN FUND BALANCE	<u>\$ (2,751,934)</u>	<u>\$ (523,542)</u>	<u>(730,509)</u>	<u>\$ (206,967)</u>
BEGINNING FUND BALANCE			<u>15,346,558</u>	
ENDING FUND BALANCE			<u>\$ 14,616,049</u>	

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016**

	CAPITAL PROJECTS FUNDS			
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
ASSETS				
Cash & Investments	\$ 1,668,054	\$ 2,881,501	\$ 1,651,113	\$ 6,200,668
Restricted cash & investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Intergovernmental Receivable	-	-	-	-
Total Assets	<u>\$ 1,668,054</u>	<u>\$ 2,881,501</u>	<u>\$ 1,651,113</u>	<u>\$ 6,200,668</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE				
Restricted for:				
Repairs and Maintenance	-	-	-	-
Capital Projects	1,668,054	2,881,501	1,651,113	6,200,668
Assigned for:				
Special Revenue Funds	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>1,668,054</u>	<u>2,881,501</u>	<u>1,651,113</u>	<u>6,200,668</u>
Total Liabilities and Fund Balances	<u>\$ 1,668,054</u>	<u>\$ 2,881,501</u>	<u>\$ 1,651,113</u>	<u>\$ 6,200,668</u>

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016**

SPECIAL REVENUE FUNDS

	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS					
Cash & Investments	\$ -	\$ -	\$ 181,793	\$ 181,793	\$ 6,382,461
Restricted cash & investments	94,412	-	-	94,412	94,412
Receivables:					
Accounts	-	143,780	-	143,780	143,780
Intergovernmental Receivable	127,756	-	4,180	131,936	131,936
Total Assets	\$ 222,168	\$ 143,780	\$ 185,973	\$ 551,921	\$ 6,752,589
LIABILITIES					
Accounts Payable	\$ -	\$ 234	\$ 640	\$ 874	\$ 874
Accrued payroll and benefits	-	-	-	-	-
Due to other funds	-	34,516	-	34,516	34,516
Unearned revenue	152,158	-	-	152,158	152,158
Total Liabilities	152,158	34,750	640	187,548	187,548
FUND BALANCE					
Restricted for:					
Repairs and Maintenance	-	-	185,333	185,333	185,333
Capital Projects	-	-	-	-	6,200,668
Assigned for:					
Special Revenue Funds	70,010	109,030	-	179,040	179,040
Unassigned	-	-	-	-	-
Total Fund Balances	70,010	109,030	185,333	364,373	6,565,041
Total Liabilities and Fund Balances	\$ 222,168	\$ 143,780	\$ 185,973	\$ 551,921	\$ 6,752,589

(Concluded)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	44,453	-	44,453
License and permits	158,339	-	-	158,339
Intergovernmental	-	-	671,258	671,258
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Interest	12,741	22,697	11,336	46,774
Other	-	-	-	-
Total Revenues	171,080	67,150	682,594	920,824
EXPENDITURES				
Current:				
Parks and Public Works	-	-	-	-
Sanitation and Other	-	-	-	-
Capital Outlay	95,820	1	1,309	97,130
Total Expenditures	95,820	1	1,309	97,130
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	75,260	67,149	681,285	823,694
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)
Changes in Fund Balances	75,260	67,149	575,285	717,694
Fund Balances - Beginning of year	1,592,794	2,814,352	1,075,828	5,482,974
Fund Balances - End of year	\$ 1,668,054	\$ 2,881,501	\$ 1,651,113	\$ 6,200,668

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	SPECIAL REVENUE FUNDS				Total
	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
REVENUES					
Property Taxes	\$ -	\$ -	\$ 28,096	\$ 28,096	\$ 28,096
Other Taxes	-	-	-	-	44,453
License and permits	-	30,000	-	30,000	188,339
Intergovernmental	6,011	-	-	6,011	677,269
Charges for Services	-	338,813	-	338,813	338,813
Fines and Forfeitures	-	-	13	13	13
Interest	67	-	1,413	1,480	48,254
Other	-	-	-	-	-
Total Revenues	6,078	368,813	29,522	404,413	1,325,237
EXPENDITURES					
Current:					
Parks and Public Works	-	-	19,477	19,477	19,477
Sanitation and Other	-	452,726	-	452,726	452,726
Capital Outlay	-	-	-	-	97,130
Total Expenditures	-	452,726	19,477	472,203	569,333
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,078	(83,913)	10,045	(67,790)	755,904
OTHER FINANCING SOURCES (USES)					
Transfers in	-	50,000	-	50,000	50,000
Transfers (out)	-	-	(4,920)	(4,920)	(110,920)
Total Other Financing Sources (Uses)	-	50,000	(4,920)	45,080	(60,920)
Changes in Fund Balances	6,078	(33,913)	5,125	(22,710)	694,984
Fund Balances - Beginning of year	63,932	142,943	180,208	387,083	5,870,057
Fund Balances - End of year	\$ 70,010	\$ 109,030	\$ 185,333	\$ 364,373	\$ 6,565,041

(Concluded)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	30,000	30,000
Intergovernmental	176,705	6,011	(170,694)	-	-	-
Charges for services	-	-	-	416,684	338,813	(77,871)
Fines and forfeitures	-	-	-	-	-	-
Interest	-	67	67	-	-	-
Other	18,000	-	(18,000)	-	-	-
Total Revenues	194,705	6,078	(188,627)	416,684	368,813	(47,871)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	538,493	452,726	85,767
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	538,493	452,726	85,767
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	194,705	6,078	(188,627)	(121,809)	(83,913)	37,896
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	50,000	50,000	-
Operating transfers (out)	(70,000)	-	70,000	-	-	-
Total Other Financing Sources (Uses)	(70,000)	-	70,000	50,000	50,000	-
CHANGE IN FUND BALANCE	<u>\$ 124,705</u>	<u>6,078</u>	<u>\$ (118,627)</u>	<u>\$ (71,809)</u>	<u>(33,913)</u>	<u>\$ 37,896</u>
BEGINNING FUND BALANCE		<u>63,932</u>			<u>142,943</u>	
ENDING FUND BALANCE		<u>\$ 70,010</u>			<u>\$ 109,030</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 27,485	\$ 28,096	\$ 611	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	95,000	158,339	63,339
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	13	13	-	-	-
Interest	914	1,413	499	10,120	12,741	2,621
Other	-	-	-	-	-	-
Total Revenues	28,399	29,522	1,123	105,120	171,080	65,960
EXPENDITURES						
Parks and public works	17,891	19,477	(1,586)	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	95,820	95,820	-
Total Expenditures	17,891	19,477	(1,586)	95,820	95,820	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,508	10,045	(463)	9,300	75,260	65,960
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ 5,588</u>	<u>5,125</u>	<u>\$ (463)</u>	<u>\$ 9,300</u>	<u>75,260</u>	<u>\$ 65,960</u>
BEGINNING FUND BALANCE		<u>180,208</u>			<u>1,592,794</u>	
ENDING FUND BALANCE		<u>\$ 185,333</u>			<u>\$ 1,668,054</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	CONSTRUCTION TAX			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	30,000	44,453	14,453	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	657,623	671,258	13,635
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	30,000	22,697	(7,303)	1,000	11,336	10,336
Other	-	-	-	-	-	-
Total Revenues	60,000	67,150	7,150	658,623	682,594	23,971
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	28,000	1	27,999	1,309	1,309	-
Total Expenditures	28,000	1	27,999	1,309	1,309	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	32,000	67,149	35,149	657,314	681,285	23,971
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(106,000)	(106,000)	-
Total Other Financing Sources (Uses)	-	-	-	(106,000)	(106,000)	-
CHANGE IN FUND BALANCE	<u>\$ 32,000</u>	<u>67,149</u>	<u>\$ 35,149</u>	<u>\$ 551,314</u>	<u>575,285</u>	<u>\$ 23,971</u>
BEGINNING FUND BALANCE		<u>2,814,352</u>			<u>1,075,828</u>	
ENDING FUND BALANCE		<u>\$ 2,881,501</u>			<u>\$ 1,651,113</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	TOTALS		
	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property taxes	\$ 27,485	\$ 28,096	\$ 611
Other taxes	30,000	44,453	14,453
License and permits	95,000	188,339	93,339
Intergovernmental	834,328	677,269	(157,059)
Charges for services	416,684	338,813	(77,871)
Fines and forfeitures	-	13	13
Interest	42,034	48,254	6,220
Other	18,000	-	(18,000)
	1,463,531	1,325,237	(138,294)
EXPENDITURES			
Parks and public works	17,891	19,477	(1,586)
Sanitation and other	538,493	452,726	85,767
Capital outlay	125,129	97,130	27,999
	681,513	569,333	112,180
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	782,018	755,904	(26,114)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	50,000	50,000	-
Operating transfers (out)	(180,920)	(110,920)	70,000
	(130,920)	(60,920)	70,000
CHANGE IN FUND BALANCE	\$ 651,098	694,984	\$ 43,886
BEGINNING FUND BALANCE		5,870,057	
ENDING FUND BALANCE		\$ 6,565,041	

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal service funds are used to finance and account for special activities and service performed by a designed department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds.

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Replacement Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self-Insurance Fund was established to account for future general liability claims against the Town.

Stores Fund was established to account for the purchase of photocopy equipment, postage and bulk meter expenses.

Management Information Fund was established to account for the replacement of management information computer systems and components.

Vehicle Maintenance Fund was established to account for preventative maintenance and repair provided for all Town vehicles and equipment.

Building Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
ASSETS								
Cash & Investments	\$ 2,149,078	\$ 2,239,237	\$ 1,546,636	\$ 189,496	\$ 2,982,513	\$ 413,153	\$ 496,339	\$ 10,016,452
Restricted Cash & Investments	-	22,680	-	-	-	-	-	22,680
Receivables:								
Accounts	-	-	-	-	5,571	-	21,082	26,653
Materials, Supplies and Deposits	3,509	-	-	2,167	-	11,485	-	17,161
Equipment (Net)	-	-	-	-	-	-	2,471	2,471
Total Assets	\$ 2,152,587	\$ 2,261,917	\$ 1,546,636	\$ 191,663	\$ 2,988,084	\$ 424,638	\$ 519,892	\$ 10,085,417
Deferred Outflows of Resources								
Pension Plan Contributions	\$ -	\$ 18,747	\$ 26,726	\$ -	\$ 71,985	\$ 32,818	\$ 51,732	\$ 202,008
LIABILITIES								
Accounts Payable	4,227	12,223	18,851	8,531	87,297	8,104	95,951	235,184
Accrued Payroll and Benefits	267	2,304	4,864	-	12,335	6,661	9,574	36,005
Due to Other Governments	88	-	-	4	-	-	-	92
Claims Payable	-	1,034,066	119,472	-	-	-	-	1,153,538
Net Pension Liabilities	-	192,086	273,841	-	737,583	336,268	530,068	2,069,846
Total Liabilities	\$ 4,582	\$ 1,240,679	\$ 417,028	\$ 8,535	\$ 837,215	\$ 351,033	\$ 635,593	\$ 3,494,665
Deferred Inflows of Resources								
Differences Between Projected and Actual Pension Earnings	\$ -	\$ 14,601	\$ 20,815	\$ -	\$ 56,064	\$ 25,560	\$ 40,291	\$ 157,331
NET POSITION								
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,471	\$ 2,471
Restricted for:								
workers compensation claims	-	22,680	-	-	-	-	-	22,680
Unrestricted	2,148,005	1,002,704	1,135,519	183,128	2,166,790	80,863	(106,731)	6,610,278
Total Net Position	\$ 2,148,005	\$ 1,025,384	\$ 1,135,519	\$ 183,128	\$ 2,166,790	\$ 80,863	\$ (104,260)	\$ 6,635,429

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 490,826	\$ 863,342	\$ 492,341	\$ 117,734	\$ 1,114,384	\$ 571,670	\$ 1,019,164	\$ 4,669,461
Interest	-	6	-	-	-	-	-	6
Use of money and property	-	-	-	-	-	-	191,526	191,526
Other local taxes	-	-	-	-	-	-	26,319	26,319
Other	10,267	99,807	-	-	-	-	44,453	154,527
Total Operating Revenues	501,093	963,155	492,341	117,734	1,114,384	571,670	1,281,462	5,041,839
OPERATING EXPENSES								
Salaries and benefits	8,931	78,199	147,641	-	395,114	209,068	332,129	1,171,082
Insurance expenses	-	373,635	360,429	-	-	-	-	734,064
Depreciation expenses	-	-	-	-	-	-	956	956
Services and supplies	-	801,039	131,139	122,562	618,609	254,910	973,290	2,901,549
Total Operating Expenses	8,931	1,252,873	639,209	122,562	1,013,723	463,978	1,306,375	4,807,651
Operating Income (loss)	492,162	(289,718)	(146,868)	(4,828)	100,661	107,692	(24,913)	234,188
Transfers (in)	-	-	-	-	-	-	-	-
Transfers (out)	(2,019,186)	-	-	-	-	-	(12,146)	(2,031,332)
Net Transfers	(2,019,186)	-	-	-	-	-	(12,146)	(2,031,332)
Change in Net Position	(1,527,024)	(289,718)	(146,868)	(4,828)	100,661	107,692	(37,059)	(1,797,144)
BEGINNING NET POSITION	3,675,029	1,315,102	1,282,387	187,956	2,066,129	(26,829)	(67,201)	8,432,573
ENDING NET POSITION	\$ 2,148,005	\$ 1,025,384	\$ 1,135,519	\$ 183,128	\$ 2,166,790	\$ 80,863	\$ (104,260)	\$ 6,635,429

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$ 501,093	\$ 963,154	\$ 494,669	\$ 117,734	\$ 1,110,456	\$ 571,670	\$ 1,278,905	\$ 5,037,681
Payments to suppliers	(69,498)	(794,577)	-	(117,604)	(575,553)	(262,088)	(985,270)	(2,804,590)
Payments to employees	(8,863)	(90,297)	(163,234)	-	(437,900)	(227,906)	(363,588)	(1,291,788)
Claims paid	-	(208,793)	(488,015)	-	-	-	-	(696,808)
Net Cash Provided (Used) by Operating Activities	422,732	(130,513)	(156,580)	130	97,003	81,676	(69,953)	244,495
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(2,019,186)	-	-	-	-	-	(12,147)	(2,031,333)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,019,186)	-	-	-	-	-	(12,147)	(2,031,333)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of Capital Assets	(3,509)	-	-	-	-	-	-	(3,509)
Net Cash Used by Capital and Related Financing Activities	(3,509)	-	-	-	-	-	-	(3,509)
Net Increase(Decrease) in Cash and Investments	(1,599,963)	(130,513)	(156,580)	130	97,003	81,676	(82,100)	(1,790,347)
Cash and investments - beginning of year	3,749,041	2,392,430	1,703,216	189,366	2,885,510	331,477	578,439	11,829,479
Cash and investments - end of year	\$ 2,149,078	\$ 2,261,917	\$ 1,546,636	\$ 189,496	\$ 2,982,513	\$ 413,153	\$ 496,339	\$ 10,039,132
Reconciliation of Operating Income to Cash								
Flows from Operating Activities:								
Operating Income	\$ 492,162	\$ (289,718)	\$ (146,868)	\$ (4,828)	\$ 100,661	\$ 107,692	\$ (24,913)	\$ 234,188
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	-	956	956
Change in assets and liabilities:								
Receivables, net	-	-	2,328	-	(3,924)	-	(2,558)	(4,154)
Other assets	-	-	-	2,405	-	10,052	-	12,457
Deferred outflows of resources	-	(2,440)	(3,479)	-	(9,370)	(4,272)	(6,734)	(26,295)
Net pension liabilities	-	14,680	20,928	-	56,370	25,699	40,511	158,188
Deferred inflows of resources	-	(24,055)	(34,293)	-	(92,368)	(42,111)	(66,381)	(259,208)
Accounts payable	(69,498)	6,178	18,180	2,553	45,634	(15,357)	(10,834)	(23,144)
Accrued payroll and benefits	68	164,842	(13,376)	-	-	(27)	-	151,507
Cash Flows From Operating Activities	\$ 422,732	\$ (130,513)	\$ (156,580)	\$ 130	\$ 97,003	\$ 81,676	\$ (69,953)	\$ 244,495

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PRIVATE PURPOSE TRUST FUNDS

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

RDA Successor Agency Private Purpose Trust Fund was established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to existing Redevelopment Agency obligations.

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	Library	RDA Successor Agency	Total
ASSETS			
Cash and investments (Note 2)	\$ 525,614	\$ 1,630,309	\$ 2,155,923
Restricted cash and investments (Note 2)	-	1,963,660	1,963,660
Loans receivable (Note 3)	-	552,097	552,097
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	1,830,469	1,830,469
 Total Assets	 <u>\$ 525,614</u>	 <u>\$ 11,233,957</u>	 <u>\$ 11,759,571</u>
LIABILITIES			
Accounts payable	\$ 2,510	\$ 397	\$ 2,907
Passthrough obligations	-	-	-
Due to other governments	32	-	32
Interest payable	-	367,000	367,000
Long-term debt (Note 6):			
Due within one year	-	1,065,000	1,065,000
Due in more than one year	-	19,312,165	19,312,165
 Total Liabilities	 <u>\$ 2,542</u>	 <u>\$ 20,744,562</u>	 <u>\$ 20,747,104</u>
NET POSITION			
Held in trust	\$ 523,072	\$ (9,510,605)	\$ (8,987,533)
 Total Net Position	 <u>\$ 523,072</u>	 <u>\$ (9,510,605)</u>	 <u>\$ (8,987,533)</u>

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Library	RDA Successor Agency	Total
ADDITIONS			
Investment earnings	\$ 4,863	\$ 40,049	\$ 44,912
Gifts, bequests and endowments	71,171	-	71,171
Other	1,381	2,001,188	2,002,569
Total Additions	77,415	2,041,237	2,118,652
DEDUCTIONS			
Program expenses	-	20,020	20,020
Payments to other governments	-	69,654	69,654
Interest and fiscal agency expenses of RDA	-	883,301	883,301
Library services	196,590	-	196,590
Depreciation expense	-	101,692	101,692
Total Deductions	196,590	1,074,667	1,271,257
CHANGE IN NET POSITION	(119,175)	966,570	847,395
NET POSITION - BEGINNING OF YEAR	642,247	(10,477,175)	(9,834,928)
NET POSITION - END OF YEAR	\$ 523,072	\$ (9,510,605)	\$ (8,987,533)

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

AGENCY FUND
PARKNG IMPROVEMENT DISTRICT #88

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**TOWN OF LOS GATOS
 AGENCY FUND
 PARKING IMPROVEMENT DISTRICT #88
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
ASSETS				
Cash and investments	\$ 179,204	\$ -	\$ 179,204	\$ -
Restricted cash and investments	-	-	-	-
 Total Assets	 \$ 179,204	 \$ -	 \$ 179,204	 \$ -
LIABILITIES				
Due to other governments	\$ 179,204	\$ -	\$ 179,204	\$ -
 Total Liabilities	 \$ 179,204	 \$ -	 \$ 179,204	 \$ -

Statistical Section

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STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Comprehensive Annual Financial Report (“CAFR”) presents the detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time. (Schedule 1, Schedule 2, Schedule 3, and Schedule 4).

Revenue Capacity

These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax (Schedule 5, Schedule 6, Schedule 7, and Schedule 8).

Debt Capacity

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and its ability to issue additional debt in the future (Schedule 9, Schedule 10, and Schedule 11)

Demographic and Economic Information

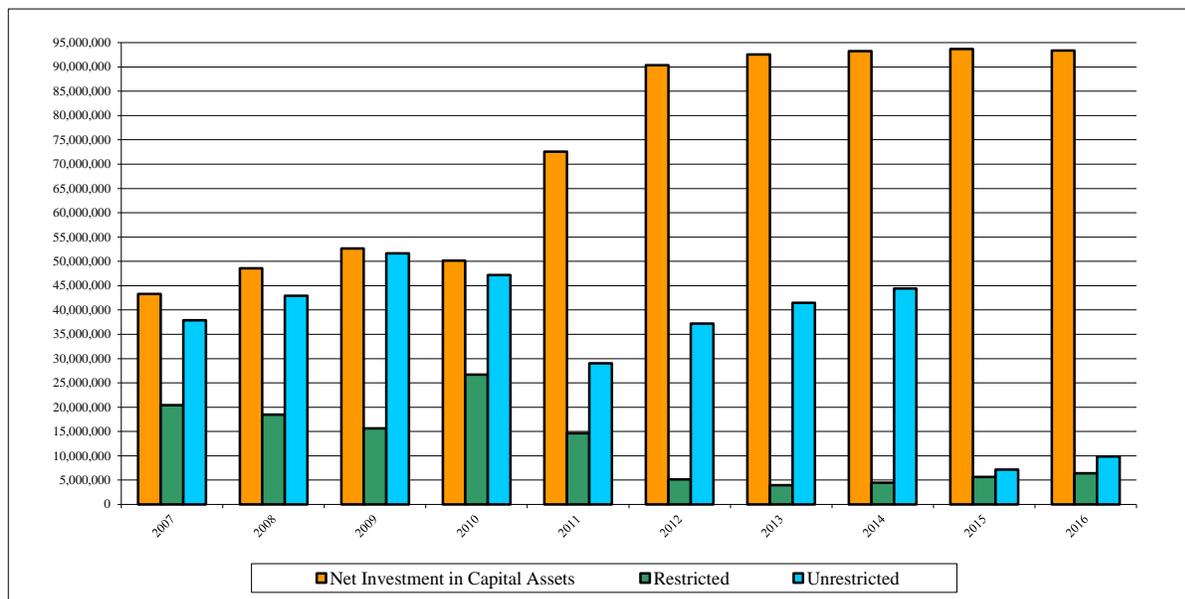
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s CAFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

Town of Los Gatos
 Net Position by Component
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2007	43,281,315	20,423,828	37,893,056	101,598,199
2008	48,581,378	18,459,776	42,884,826	109,925,980
2009	52,665,506	15,663,436	51,619,635	119,948,577
2010	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130
2016	93,383,855	6,386,014	9,893,807	109,663,676

(2) The decrease in Restricted Net Position from FY2010 to FY2011 was primarily due to the issuance of the \$15.7 million Certificates of Participation in FY2010.

Expenses	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Governmental Activities:										
General Government	\$ 4,570,391	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804	\$ 6,465,852	\$ 6,993,661
Police Department	11,556,350	12,313,637	13,467,503	13,266,849	13,495,885	14,124,798	13,731,754	14,119,786	12,644,221	15,676,518
Parks and Public Works	7,222,052	6,958,449	8,671,678	7,458,085	7,155,905	7,827,332	7,829,315	8,154,616	8,069,352	8,320,623
Community Development	2,735,223	3,064,865	3,389,151	3,522,477	3,099,269	3,434,551	4,094,188	4,424,040	4,047,738	3,227,224
Community Services	2,388,250	1,060,922	1,162,284	1,270,240	666,015	-	-	-	-	-
Library Services	1,892,448	1,956,767	2,067,476	2,038,009	1,892,805	1,938,577	2,128,823	2,234,431	2,553,414	2,522,142
Sanitation	414,610	502,196	407,048	655,713	342,893	158,205	393,205	363,180	491,359	528,580
Redevelopment	2,434,935	3,360,585	2,939,550	6,992,935	16,794,022	919,821	1,277,063	21,687	-	-
Interest and Fees	704,794	670,415	631,159	612,700	1,278,381	1,123,842	-	-	-	-
Total Governmental Activities	\$ 33,919,053	\$ 35,121,566	\$ 38,059,316	\$ 40,464,809	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544	\$ 34,271,936	\$ 37,268,748
Program Revenues										
Charges for Services:										
General Government	\$ 2,127,670	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077	\$ 1,888,213	\$ 1,517,012
Police Department	1,250,636	895,569	1,358,361	2,110,357	2,153,843	2,324,397	2,450,630	3,206,579	3,529,166	3,278,585
Parks and Public Works	676,095	576,107	637,933	779,300	810,022	1,215,382	3,044,401	1,550,867	2,206,765	1,516,108
Community Development	2,997,419	2,954,123	2,700,614	3,404,087	3,097,192	3,448,433	4,649,444	5,156,061	5,027,497	4,359,146
Community Services	-	-	147,895	134,366	98,803	-	-	-	-	-
Library Services	61,091	60,123	56,932	57,633	39,491	37,662	50,696	51,775	53,123	46,192
Sanitation	437,794	166,660	135,000	135,000	135,000	135,000	403,294	328,648	328,868	368,813
Operating Grants and Contributions:										
General Government	-	54,242	8,834	10,237	15,638	6,453	8,406	-	-	15,291
Police Department	645,034	744,347	538,629	81,997	27,748	29,980	91,360	42,661	24,838	98,138
Parks and Public Works	545,432	565,857	633,923	594,775	809,272	993,827	835,724	994,096	907,745	749,300
Community Services	68,912	146,236	190,447	124,287	182,683	-	-	-	-	-
Library Services	16,735	11,409	10,462	13,996	10,662	109	40	14,662	4,062	12,228
Sanitation	-	41,044	39,891	25,103	9,002	-	-	-	-	-
Capital Grants and Contributions:										
General Government	-	-	-	-	-	-	169,270	-	176,705	-
Parks and Public Works	1,381,631	2,020,121	1,330,638	3,074,453	2,375,759	641,811	2,757,660	2,274,879	2,338,154	1,610,657
Community Development	-	-	-	-	-	-	-	19,360	-	-
Total Program Revenues	\$ 10,208,449	\$ 9,385,749	\$ 8,944,968	\$ 11,883,363	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665	\$ 16,485,136	\$ 13,571,470
General Revenues										
Property Taxes	\$ 16,082,348	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312	\$ 12,931,603	\$ 13,763,458
Sales Taxes	9,253,891	9,345,432	8,487,000	8,317,217	9,971,409	9,889,100	8,757,428	8,029,571	8,202,678	7,501,175
Franchise Taxes	-	-	-	-	-	-	-	-	2,215,430	2,258,892
Other Taxes	2,327,516	2,904,908	2,664,698	2,623,622	2,906,264	3,698,753	3,324,791	3,718,405	2,062,893	1,997,497
Motor Vehicle in Lieu	194,104	137,330	101,265	92,595	139,814	15,238	15,790	13,068	-	12,308
Investment Earnings	3,607,966	4,190,951	2,949,119	1,155,929	760,905	331,420	(133,375)	772,200	428,772	698,324
Loss on Disposal of Capital Assets	-	-	-	-	-	-	-	-	-	-
Sale of Property	-	-	6,525,000	-	(870,127)	-	54,425	-	-	-
Miscellaneous	334,818	9,842	66,802	52,459	41,943	2,275,160	1,154,647	350,468	813,324	598,170
Extraordinary Gain (Loss) Dissolution of RDA	-	-	-	-	-	11,864,453	295,101	-	-	-
Total General Revenues	\$ 31,800,643	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024	\$ 26,654,700	\$ 26,829,824
Change in Net Position	\$ 8,090,039	\$ 8,163,698	\$ 10,022,599	\$ 2,516,457	\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145	\$ 8,867,900	\$ 3,132,546

* These line items have only been available since implementation of GASB34 in 2002/03.

- a. Investment Earnings revenue was down due to the economy downturn.
- b. Investment Earnings revenue was down due to declining interest rates and reduced cash balances.

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 3

	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Fund										
Reserved	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	16,406,211	17,236,569	16,861,752	18,594,984	-	-	-	-	-	-
Nonspendable	-	-	-	-	1,500,000	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	20,019,187
Assigned	-	-	-	-	21,806,781	21,992,886	20,758,156	23,791,749	24,121,256	9,555,085
Unassigned	-	-	-	-	2,433,556	4,019,409	7,502,446	1,363,376	-	-
Total General Fund	\$ 21,138,605	\$ 19,284,830	\$ 25,027,359	\$ 23,086,573	\$ 25,740,337	\$ 26,012,295	\$ 28,260,602	\$ 25,155,125	\$ 24,121,256	\$ 29,574,272
All Other Governmental Funds										
Reserved	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue Funds	836,191	1,030,161	522,105	225,509	-	-	-	-	-	-
Capital Project Funds	8,169,857	11,719,905	11,203,521	24,454,347	-	-	-	-	-	-
Debt Service Funds	3,849,382	5,747,185	7,526,557	6,953,732	-	-	-	-	-	-
Nonspendable	-	-	-	-	1,500,000	-	-	-	-	-
Restricted	-	-	-	-	14,764,334	5,167,236	3,949,583	4,485,246	5,663,182	6,386,014
Committed	-	-	-	-	-	-	-	-	-	3,696,000
Assigned	-	-	-	-	26,593,328	27,382,560	26,855,338	8,191,823	15,346,558	11,099,076
Unassigned	-	-	-	-	2,409,667	4,126,516	7,659,654	183,045	206,875	-
Total All Other Governmental Funds	\$ 28,675,775	\$ 33,414,880	\$ 34,517,310	\$ 42,158,972	\$ 45,267,329	\$ 36,676,312	\$ 38,464,575	\$ 12,860,114	\$ 21,216,615	\$ 21,181,090

Town of Los Gatos
 Changes in Fund Balances, Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

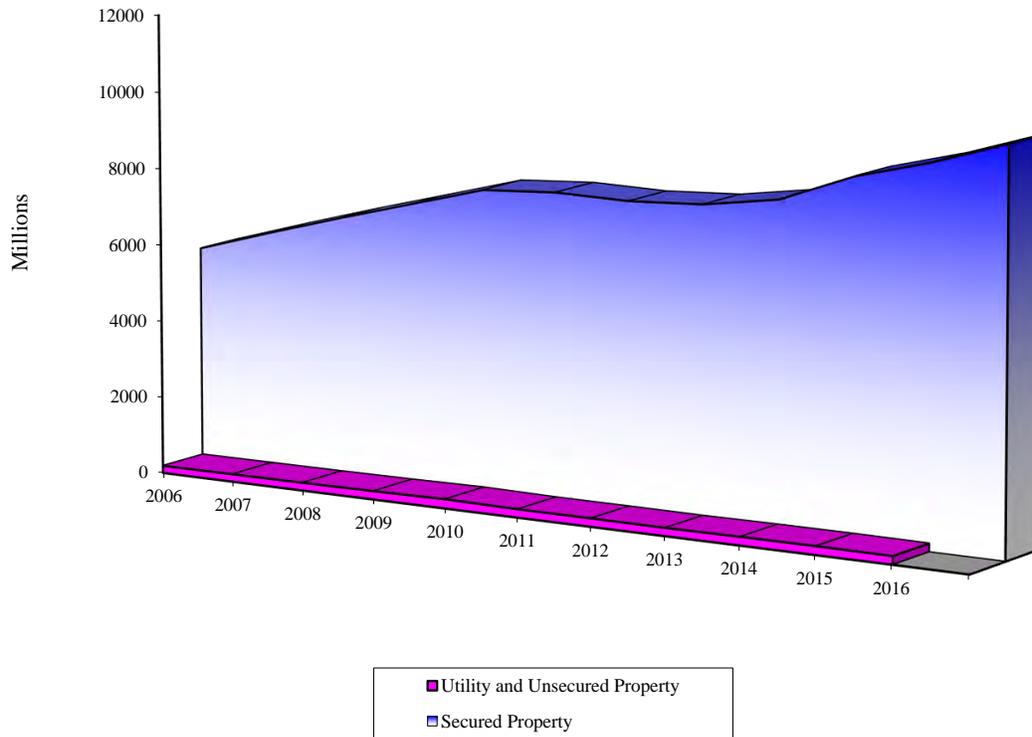
Schedule 4

	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Revenues:										
Taxes	\$ 27,888,072	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820	\$ 23,269,892
Intergovernmental	4,085,983	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002	2,573,475
Charges for Service	4,269,571	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386	4,773,001
Licenses & Permits	2,705,028	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771	5,442,133
Investment Income	4,179,736	4,190,955	2,949,120	1,174,203	691,022	291,484	(133,380)	772,164	428,735	698,308
Fines and Forfeitures	561,665	369,292	618,771	662,699	737,903	809,790	688,125	795,720	868,564	879,277
Franchise Fees	-	-	-	-	-	-	-	-	2,215,430	2,258,892
Use of Property	-	-	60,749	51,948	38,502	38,974	38,910	37,741	32,209	31,723
Other	110,486	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975	2,396,992
Total Revenues	43,800,541	44,976,665	43,100,650	45,439,566	46,245,149	44,692,043	42,928,334	42,350,268	45,067,892	42,323,693
Expenditures:										
Current										
Public Safety	11,576,850	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198	13,763,316
Public Works	4,956,451	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097	6,307,266
Community Development	2,776,231	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500	3,695,504
Community Services	2,395,429	1,056,835	1,149,290	1,261,981	663,645	-	-	-	-	-
Library Services	1,904,900	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479	2,055,069	2,131,438	2,268,844	2,332,268
Sanitation & Other	387,674	470,660	375,483	642,512	314,899	116,607	359,725	322,817	411,863	452,726
General Government	4,586,513	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451	9,144,797
Redevelopment	2,966,132	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063	21,687	-	-
Capital Outlay	4,689,187	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478	3,241,657
Debt Service										
Principal Repayment	414,167	429,167	445,000	465,000	485,000	934,167	-	-	-	-
Interest and Fiscal Charges	711,346	676,913	638,221	620,356	1,019,881	1,143,185	-	-	-	-
Total Expenditures	37,364,880	42,195,302	43,419,514	56,733,967	66,606,303	48,317,986	41,814,015	38,762,529	38,934,431	38,937,534
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	6,435,661	2,781,363	(318,864)	(11,294,401)	(20,361,154)	(3,625,943)	1,114,319	3,587,739	6,133,461	3,386,159
Other Financing Sources(Uses):										
Debt Issuance	-	-	-	16,428,095	-	-	-	-	-	-
Transfers In	10,611,169	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220	3,315,846
Transfers Out	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)	(1,284,514)
Proceeds from Issuance of Debt	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources(Uses)	1,235,322	103,970	638,823	16,995,276	382,939	73,546	378,031	497,463	1,189,171	2,031,332
Special Item:										
Sale of Property	-	-	6,525,000	-	-	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-	(5,038,620)	295,913	-	-	-
Prepayment of Pension Obligations	-	-	-	-	-	-	-	(4,534,538)	-	-
Net Change in Fund Balances	\$ 7,670,983	\$ 2,885,333	\$ 319,959	\$ 5,700,875	# \$ (19,978,215)	# \$ (3,552,397)	\$ 1,492,350	\$ 4,085,202	\$ 7,322,632	\$ 5,417,491
Debt Service as a Percentage										
of Non Capital Expenditures	3.44%	3.30%	3.04%	2.67%	2.96%	5.56%	0.00%	0.00%	0.00%	0.00%

1 Increase due to SERAF payment to State in the amount of \$2.2M and increased Pass Through Payments.
 2 The increase in capital outlay is due to purchases of land for low-moderate housing projects in the amount of \$4.3M and purchase of land for a sports park in the amount of \$3.1M.

Town of Los Gatos
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years

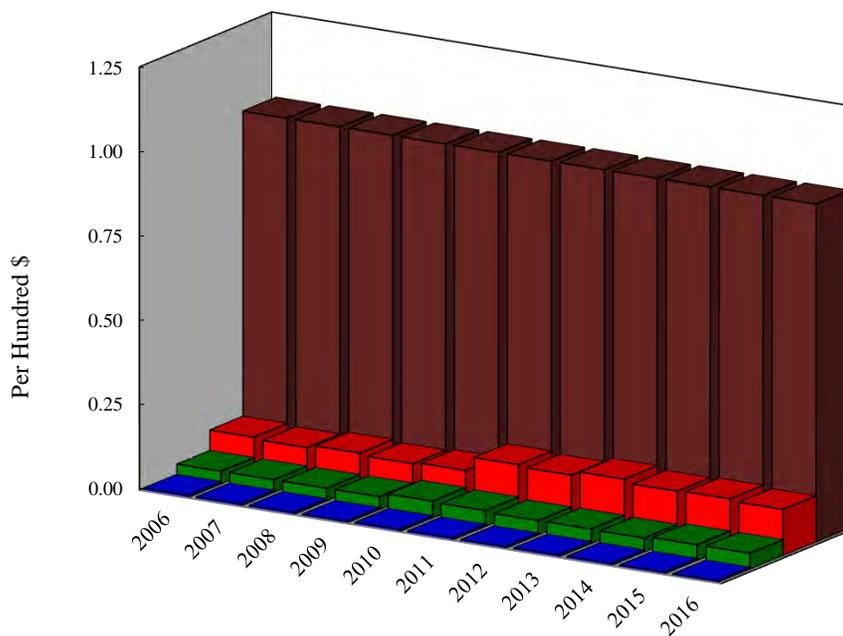
Schedule 5



Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2007	\$ 194,195,209	4.02%	\$ 6,840,335,733	9.27%	\$ 7,034,530,942	\$ 27,361,342,932	1.0460
2008	201,629,315	3.83%	7,392,958,751	8.08%	7,594,588,066	29,571,835,004	1.0459
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0449
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0584
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0555
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533

Source: Santa Clara County Assessed Value Report

Town of Los Gatos
 Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years



Santa Clara Valley Water District County
 Retirement Levy / Hospital Bond
 School District Bonds and Loans
 Basic County Wide Levy

Fiscal Year	Basic County Wide Levy	County Retirement Levy and County Hospital Bond	Santa Clara Valley Water District	School District Bonds and Loans	Total
2007	1.0000	0.0388	0.0072	0.0941	1.1401
2008	1.0000	0.0388	0.0071	0.1032	1.1491
2009	1.0000	0.0388	0.0061	0.0970	1.1419
2010	1.0000	0.0510	0.0074	0.1021	1.1605
2011	1.0000	0.0483	0.0072	0.1449	1.2004
2012	1.0000	0.0435	0.0064	0.1393	1.1892
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914

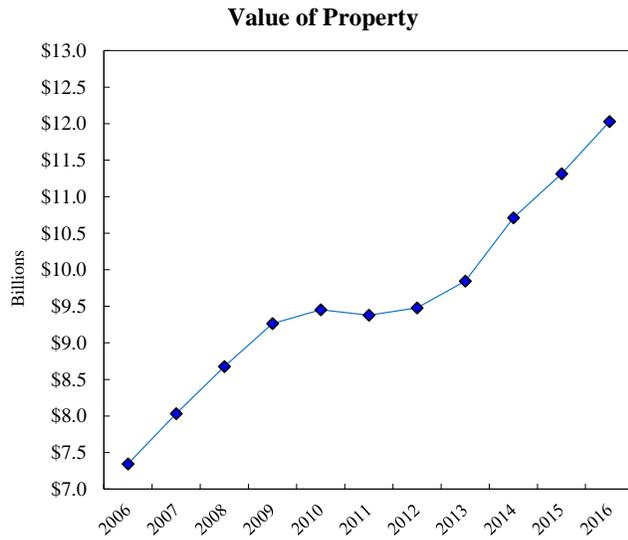
Source: Santa Clara County Book of Tax Rates

ASSESSEE NAME	2011/12		2012/13		2013/14		2014/15		2015/16	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Sobrato Interests IV/Sobrato Land Holdings	\$157,554,525	1.93%	\$157,559,245	1.86%	\$169,809,676	2.01%	\$20,869,338	0.21%	\$44,930,482	0.43%
Boccardo Corporation	\$37,173,877	0.46%	\$37,550,368	0.44%	\$38,617,912	0.46%	\$38,772,905	0.40%	\$21,617,318	0.21%
Knowles Los Gatos LLC	\$46,123,468	0.57%	\$47,045,934	0.56%	\$47,986,850	0.57%	\$48,204,708	0.49%	\$49,167,836	0.47%
SRI Old Town LLC	\$29,778,712	0.37%	\$30,374,286	0.36%	\$30,981,771	0.37%	\$31,122,427	0.32%	\$31,744,252	0.30%
CH Realty IV Downing LP	\$19,143,068	0.23%	\$19,525,927	0.23%	\$19,916,443	0.24%	-	0.00%	-	0.00%
Hercules Holding II LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Health Care REIT Inc,	\$19,869,245	0.24%	\$19,223,348	0.23%	\$20,671,960	0.24%	\$20,765,810	0.21%	\$20,089,903	0.19%
750 University LLC	-	0.00%	\$12,137,999	0.14%	\$18,600,000	0.22%	\$19,000,000	0.19%	\$19,379,620	0.19%
Grosvenor USA Ltd.	\$21,066,630	0.26%	\$22,437,962	0.27%	\$22,886,720	0.27%	\$22,990,624	0.24%	\$23,449,975	0.23%
Alberto Way Holdings LLC	\$21,034,623	0.26%	\$23,145,064	0.27%	\$23,607,964	0.28%	\$23,715,141	0.24%	\$24,188,966	0.23%
D&K Los Gatos LLC	\$15,284,324	0.19%	\$15,590,010	0.18%	\$15,901,809	0.19%	\$15,974,003	0.16%	\$16,293,163	0.16%
CHL Ventures LP	\$20,266,630	0.25%	\$20,671,962	0.24%	-	0.00%	-	-	-	0.00%
San Jose Water Works	\$29,369,137	0.36%	\$30,882,009	0.36%	\$33,626,381	0.40%	\$36,693,453	0.38%	\$37,081,049	0.36%
Toll House Hotel LLC	\$15,696,089	0.19%	-	0.00%	-	0.00%	-	-	-	0.00%
Grade Way Associations VI	\$14,508,482	0.18%	\$14,798,651	0.17%	\$15,094,623	0.18%	\$15,163,152	0.16%	-	0.00%
Lyon Baytree Apartments LLC	\$14,177,039	0.17%	\$14,430,123	0.17%	\$14,674,716	0.17%	-	-	-	0.00%
KSL Capital Partners	\$41,698,751	0.51%	\$42,532,721	0.50%	\$43,383,370	0.51%	\$43,580,326	0.45%	\$30,134,614	0.29%
Los Gatos Hotel Corp.	\$15,683,979	0.19%	\$15,617,134	0.18%	\$18,134,182	0.21%	\$15,573,314	0.16%	\$15,676,113	0.15%
David A. and Shari Flick Trustee	\$14,724,487	0.18%	\$15,018,971	0.18%	-	0.00%	\$15,388,884	0.16%	-	0.00%
Pter R. Hofman	-	0.00%	-	0.00%	-	0.00%	-	-	-	0.00%
Paul H. Roskoph	\$12,926,457	0.16%	\$13,416,452	0.16%	-	0.00%	-	-	-	0.00%
Good Samaritan Hospital LP	\$19,372,795	0.24%	\$19,530,183	0.23%	\$19,710,897	0.23%	\$19,602,594	0.20%	\$19,880,366	0.19%
Windrose Los Gatos Properties LLC	-	0.00%	-	0.00%	-	0.00%	-	-	-	0.00%
Park Row East Apartments Ltd.	-	0.00%	-	0.00%	-	0.00%	-	-	-	0.00%
LG Business Park LLC	18,342,931.00	0.23%	-	0.00%	\$47,276,977	0.56%	\$39,347,485	0.40%	\$17,507,261	0.17%
Green Eyes LLC	-	0.00%	\$12,542,555	0.15%	\$12,793,404	0.15%	-	-	-	-
Go and Kay Karou Sasaki	-	0.00%	-	0.00%	\$22,752,809	0.27%	-	-	\$24,744,983	0.24%
Ann R. Desantis	-	0.00%	-	0.00%	\$13,823,779	0.16%	-	-	-	0.00%
DS Downing Los Gatos LLC	-	0.00%	-	0.00%	-	0.00%	\$20,006,861	0.20%	\$21,980,568	0.21%
El Camino Hospital	-	0.00%	-	0.00%	-	0.00%	\$20,803,609	0.21%	\$26,477,160	0.25%
LG Hotel LLC	-	0.00%	-	0.00%	-	0.00%	\$15,448,057	0.16%	\$15,497,395	0.15%
SI 32 LLC	-	0.00%	-	0.00%	-	0.00%	\$150,563,119	1.54%	\$141,348,894	1.36%
LG Business Park Bldg 1, 2 &3 LLC	-	-	-	-	-	-	-	-	\$61,947,284	0.59%
Total - Principal taxpayers	\$ 583,795,249	7.16%	\$ 584,030,904	6.90%	\$ 650,252,243	7.68%	\$ 633,585,810	6.49%	\$ 663,137,202	6.37%
Total - All real properties assessed by the Town (1)	\$8,151,530,237		\$8,464,491,112		\$9,237,887,980		\$9,766,765,025		\$10,416,786,877	

(1) Assessed value includes only net secured real properties.

(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2007	\$ 6,386,562	\$ 7,425,925	\$ 13,812,488	\$ 7,034,530,942	\$ 996,479,040	\$ 8,031,009,982
2008	6,901,935	8,072,176	14,974,111	7,594,588,066	1,081,483,541	8,676,071,607
2009	7,465,403	8,574,251	16,039,654	8,166,393,709	1,096,883,582	9,263,277,291
2010	7,608,137	9,022,863	16,630,999	8,317,387,662	1,134,135,499	9,451,523,161
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,249,873,303	10,712,769,705
2015	9,787,519	-	9,787,519	9,995,113,547	1,318,214,863	11,313,328,410
2016	10,388,424	-	10,388,424	10,634,839,902	1,395,509,489	12,030,349,391

Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Town of Los Gatos
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Schedule 9

Fiscal Year	Governmental Activities						Percentage of Personal Income	Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities	Total Primary Government			
2007	\$ 1,085,000	\$ 9,845,000	\$ -	\$ 10,930,000	\$ 10,930,000	7.3%	372.25	
2008	890,000	9,610,000	-	10,500,000	10,500,000	6.2%	348.03	
2009	685,000	9,370,000	-	10,055,000	10,055,000	5.5%	329.70	
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	19.4%	820.24	
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72	
2012	-	-	-	-	-	0.0%	0.00	
2013	-	-	-	-	-	0.0%	0.00	
2014	-	-	-	-	-	0.0%	0.00	
2015	-	-	-	-	-	0.0%	0.00	
2016	-	-	-	-	-	0.0%	0.00	

¹⁾ Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution

2015/16 Assessed Valuation:	\$10,634,839,902		
		Debt at	Estimated Share
DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable (1)	June 30, 2016	of Direct and
Overlapping Tax & Assesment Debt			Overlapping Debt
			at June 30, 2016
Santa Clara County	2.741%	\$ 792,585,000	\$ 21,724,755
West Valley-Mission Community College District	9.583%	\$ 419,930,312	\$ 40,241,922
Campbell Union High School District	8.156%	\$ 142,765,000	\$ 11,643,913
Los Gatos-Saratoga Joint Union High School District	33.340%	\$ 70,320,000	\$ 23,444,688
Cambrian School District	0.348%	\$ 51,874,944	\$ 180,525
Campbell Union High School District	8.385%	\$ 165,271,229	\$ 13,857,993
Los Gatos Union School District	69.945%	\$ 94,485,000	\$ 66,087,533
Saratoga Union School District	0.037%	\$ 33,775,241	\$ 12,497
Union School District	20.797%	\$ 86,229,020	\$ 17,933,049
Midpeninsula Regional Open Space District	4.716%	\$ 45,000,000	\$ 2,122,200
Santa Clara Valley Water District Benefit Assessment District	2.741%	\$ 99,060,000	\$ 2,715,235
Total Overlapping Tax and Assesment Debt			\$ 199,964,310
Overlapping General Fund Debt			
Santa Clara County General Fund Obligations	2.741%	\$ 683,441,121	\$ 18,733,121
Santa Clara County Pension Obligations	2.741%	\$ 367,118,349	\$ 10,062,714
Santa Clara County Board of Education Certificates of Participation	2.741%	\$ 6,380,000	\$ 174,876
West Valley-Mission Community College District General Fund Obligations	9.583%	\$ 64,180,000	\$ 6,150,369
Campbell Union High School District General Fund Obligations	8.156%	\$ 15,165,000	\$ 1,236,857
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	33.340%	\$ 6,260,000	\$ 2,087,084
Campbell Union School District General Fund Obligations	8.385%	\$ 3,265,000	\$ 273,770
Saratoga Union School District Certificates of Participation	0.037%	\$ 4,600,000	\$ 1,702
Santa Clara County Vector Control District Certificates of Participation	2.741%	\$ 2,890,000	\$ 79,215
Midpeninsula Regional Open Space Park District General Fund Obligations	4.716%	\$ 122,305,886	\$ 5,767,946
Total Gross Overlapping General Fund Debt			\$ 44,567,654
Less: Santa Clara County Supported Obligations			\$ 10,039,477
Total Overlapping General Fund Debt			\$ 34,528,177
Overlapping Tax Increment Debt (Successor Agency)			
Town of Los Gatos Certificated of Participations			\$ 19,850,000
Total of Overlapping Tax Increment Debt			\$ 19,850,000
Total Direct Debt			\$0
Total Gross Overlapping Debt			\$ 264,381,964
Total Net Overlapping Debt			\$ 254,342,487
Gross Combined Total Debt			\$ 264,381,964 (2)
Net Combined Total Debt			\$ 254,342,487

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Ratios to 2015/16 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.88%
 Total Direct Debt: 0.00%
 Gross Combined Total Debt: 2.49%
 Net Combined Total Debt: 2.39%

Ratios to redevelopment Incremental Valuation (\$1,151,739,656):

Total Overlapping Tax Increment Debt: 1.72%

Town of Los Gatos
 Legal Debt Margin Information,
 Last Ten Fiscal Years
 (In Thousands of Dollars)

Schedule 11

Legal Debt Margin Calculation
 for Fiscal Year 2015/16

Assessed Value	\$9,632,954,775
Debt Limit	1,444,943,216
Debt Applicable to Limit:	-
Legal Debt Margin	<u>\$1,444,943,216</u>

	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Debt Limit	\$ 932,872	\$ 1,019,970	\$ 1,102,766	\$ 1,185,727	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943
Debt Applicable to Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<u>\$ 932,872</u>	<u>\$ 1,019,970</u>	<u>\$ 1,102,766</u>	<u>\$ 1,185,727</u>	<u>\$ 1,204,551</u>	<u>\$ 1,195,035</u>	<u>\$ 1,216,131</u>	<u>\$ 1,263,138</u>	<u>\$ 1,379,254</u>	<u>\$ 1,444,943</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

- (1) The Town of Los Gatos is a general law city and has a debt limit of 15%.
- (2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the RDA dissolution.

Town of Los Gatos
 Demographic and Economic Statistics
 Last Ten Fiscal Years

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2007	29,362	\$ 1,764,862	\$ 60,107	44.64	5,742	4.8%
2008	30,170	1,781,780	59,058	44.86	5,870	6.0%
2009	30,497	1,701,153	55,781	45.35	6,006	11.8%
2010	30,802	1,787,070	58,018	45.09	6,100	11.3%
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.80	6,420	6.8%
2014	30,443	2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	907,708	28,930	46.30	6,646	3.5%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2015)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) California State Dept of Finance - county per capita at: labormarketinfo.edd.ca.gov
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Principal Employers	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	Emp.	Percentage of Total Town Employment																		
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.09%	2,000	12.89%	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%	2,000	13.29%	2,000	13.52%	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	-	0.00%	-	0.00%	800	4.92%	700	4.26%	700	4.41%	700	4.86%	700	4.65%	700	4.73%	560	3.73%	560	3.53%
Los Gatos Union School District	300	1.96%	300	1.93%	300	1.85%	300	1.83%	300	1.89%	275	1.91%	275	1.83%	237	1.60%	273	1.82%	280	1.76%
Los Gatos-Saratoga High School District	300	1.96%	300	1.93%	300	1.85%	300	1.83%	300	1.89%	270	1.88%	270	1.79%	256	1.73%	157	1.05%	157	0.99%
Netflix	280	1.83%	280	1.80%	-	0.00%	280	1.70%	800	5.04%	800	5.56%	900	5.98%	825	5.58%	1,530	10.19%	1,976	12.45%
Safeway	250	1.64%	250	1.61%	200	1.23%	250	1.52%	250	1.57%	250	1.74%	250	1.66%	250	1.69%	314	2.09%	314	1.98%
Alain Pinel Realtors	220	1.44%	220	1.42%	-	0.00%	220	1.34%	220	1.39%	150	1.04%	150	1.00%	156	1.05%	-	0.00%	-	0.00%
Verizon	200	1.31%	200	1.29%	200	1.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.31%	200	1.29%	200	1.23%	200	1.22%	200	1.26%	200	1.39%	200	1.33%	295	1.99%	440	2.93%	440	2.77%
Town of Los Gatos	152	0.99%	135	0.87%	189	1.16%	148	0.90%	138	0.87%	136	0.94%	138	0.92%	144	0.97%	157	1.05%	158	1.00%
Whole Foods	130	0.85%	130	0.84%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	179	1.19%	179	1.13%
Vasona Creek Health Care Center	130	0.85%	130	0.84%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	233	1.55%	233	1.47%
Good Samaritan Regional Cancer Center	130	0.85%	130	0.84%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	200	1.33%	200	1.26%
Roku	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	487	3.07%
Terraces of Los Gatos	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	228	1.44%

Town of Los Gatos
 Full-time-Equivalent Employees by Function/Program
 Last Ten Fiscal Years

Schedule 14

Full-time-Equivalent Employees as of June 30

<u>Function/Program</u>	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Government	20.75	20.50	19.95	18.35	18.90	20.15	20.40	20.73	20.97	20.97
Police	62.00	61.00	61.00	60.00	59.50	60.50	58.00	57.50	60.00	59.00
Culture and Recreation	4.25	5.25	5.25	5.25	3.25	-	-	-	-	-
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	-	0.50	0.63	0.63
Library	10.35	10.35	10.35	10.35	8.60	8.60	8.60	10.30	10.80	11.00
Planning	18.80	18.80	18.80	17.80	15.00	16.00	17.50	17.50	19.50	19.00
Public Works	34.00	34.00	37.00	35.00	32.50	32.00	31.00	31.50	32.00	33.50
Total	<u>151.15</u>	<u>150.90</u>	<u>153.35</u>	<u>147.75</u>	<u>138.75</u>	<u>138.25</u>	<u>135.50</u>	<u>137.53</u>	<u>143.90</u>	<u>144.10</u>

Full-time equivalent employment is calculated as one or more employee positions totaling one full year of service or approximately 2,080 hours a year.

FUNCTION/PROGRAM

	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General government										
Building Permits Issued										
Residential Permits Issued	878	762	676	733	711	747	738	813	805	899
Residential Permits Value	80,030,698	69,104,606	48,162,274	51,090,808	42,974,043	66,072,341	75,227,889	87,307,822	76,896,111	85,000,754
Commercial Permits Issued	136	127	24	117	128	107	137	139	133	147
Commercial Permits Value	31,916,848	27,232,018	4,356,307	7,908,146	31,289,431	17,663,124	46,855,615	138,676,507	178,195,997	20,185,884
Publicly Owned Permits Issued			2	11	11	-	-	-	-	-
Publicly Owned Permits Value			2,308,160	5,732,014	40,000	-	-	-	-	-
Residential Parking Permits										
Number of Special Event Permits Issued	67	72	76	87	96	89	125	133	127	107
Number of Annual Permits Issued	492	621	752	686	713	1,223	1,320	1,376	1,570	1,363
City Clerk										
Number of Council Resolutions Passed	117	130	143	167	76	59	74	86	72	61
Number of Ordinances Passed	4	6	13	16	6	13	20	16	9	11
Number of Contracts Passed	156	221	197	206	218	227	220	196	222	283
General Services										
Number of Purchase Orders Issued	588	557	396	365	336	358	318	301	277	334
Police										
Physical Arrests	1,062	1,165	925	831	872	690	648	641	695	987
Parking Violations	10,136	4,041	11,148	11,512	14,377	12,938	11,991	14,421	13,321	13,975
Traffic Violations	1,674	1,714	2,588	3,008	2,718	2,908	3,333	4,747	4,633	5,400
DUI Arrests	148	100	88	110	98	89	86	62	48	58
Library										
Circulated e-audiobooks	1,506	965	1,516	1,852	1,994	3,388	4,774	2,414 *	5,867 *	7,761
Other Public Works										
Street Resurfacing/Overlay/Reconstruction (miles)	1.7	2.1	3.5	4.7	4.7	8.0	8.0	10.0	1.8	8.0
ADA Compliance: Curb Ramps	9	9	9	13	17	19	19	19	23	11
Traffic Circles	1	1	1	1	1	1	1	-	1	1
Street Poles	1,575	1,575	1,575	1,605	1,708	1,611	1,611	1,611	1,609	1,609
Planning and Development Department										
Building & Safety Inspections Performed	13,376	11,110	10,367	9,055	10,977	11,738	11,902	12,764	11,652	8,655
Redevelopment: Number of active projects	2	4	3	3	1	-	-	-	-	-

* July 2013 the Library separated from Northern CA Digital Library, Patrons had no longer access to collections of multiple libraries. By 2014 the Library has expanded its contents giving patrons access to more materials.

Source: Town of Los Gatos, Finance Department

Town of Los Gatos
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Schedule 16

Function/Program	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Police										
Number of Stations	1	1	1	2	2	2	2	2	2	2
Number of Patrol Units	15	15	15	14	14	14	14	14	14	14
Parking Enforcement Vehicles	3	3	3	2	2	2	2	2	2	2
Other Public Works										
Streets (miles)	112	112	112	112	112	112	112	112	112	112
Streetlights	2,190	2,190	2,190	2,112	2,115	2,116	2,116	2,109	1,609	1,609
Traffic Signals	28	28	28	28	28	29	29	29	29	30
Parks and Recreation										
Number of Parks	12	12	12	12	12	12	12	12	12	12
Number of Community Centers	1	1	1	1	1	1	1	1	1	1
Parking										
Number of Parking Garages	1	1	1	1	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126

Source: Town of Los Gatos, Finance Department

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Other Independent Auditor's Reports



**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***

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

We have audited, 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, the financial statements of the Town of Los Gatos (the “Town”) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated January 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

San Jose, California
January 14, 2017

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TOWN OF LOS GATOS

Comprehensive Annual Financial Report





**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE REPORT**

MEETING DATE: 01/23/2017

ITEM NO: 2

DESK ITEM

DATE: JANUARY 23, 2017
TO: COUNCIL FINANCE COMMITTEE
FROM: STEPHEN CONWAY, FINANCE DIRECTOR
SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO REVIEW AND ACCEPT THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR
ENDED JUNE 30, 2016

REMARKS:

After the release of the packet, staff updated the agenda to include the election of Chair and Vice Chair. In addition, staff found typographical errors on a couple of pages. Replacement pages are contained in Attachment 2.

Attachment 3 contains correspondence received after the Staff Report distribution. Staff remains engaged with the public answering questions regarding past and current financial statements and fund balances. Staff is prepared to respond to any questions at the meeting.

Attachments:

1. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

Attachments received with this Desk Item:

2. Replacement pages 115 and 116.
3. Public comment received before 11 a.m. on November 21, 2016.

PREPARED BY: STEPHEN CONWAY
FINANCE DIRECTOR

Reviewed by: Town Manager

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 3

	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Fund										
Reserved	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	16,406,211	17,236,569	16,861,752	18,594,984	-	-	-	-	-	-
Nonspendable	-	-	-	-	1,500,000	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	20,019,187
Assigned	-	-	-	-	24,240,337	24,517,369	28,260,602	25,155,125	24,121,256	9,555,085
Unassigned	-	-	-	-	-	1,494,926	-	-	-	-
Total General Fund	\$ 21,138,605	\$ 19,284,830	\$ 25,027,359	\$ 23,086,573	\$ 25,740,337	\$ 26,012,295	\$ 28,260,602	\$ 25,155,125	\$ 24,121,256	\$ 29,574,272
All Other Governmental Funds										
Reserved	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue Funds	836,191	1,030,161	522,105	225,509	-	-	-	-	-	-
Capital Project Funds	8,169,857	11,719,905	11,203,521	24,454,347	-	-	-	-	-	-
Debt Service Funds	3,849,382	5,747,185	7,526,557	6,953,732	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	14,764,334	5,167,236	3,949,583	4,485,246	5,663,182	6,386,014
Committed	-	-	-	-	-	-	-	-	-	3,696,000
Assigned	-	-	-	-	4,786,547	5,389,674	6,097,182	8,191,823	15,346,558	11,099,076
Unassigned	-	-	-	-	(23,889)	107,107	157,208	183,045	206,875	-
Total All Other Governmental Funds	\$ 28,675,775	\$ 33,414,880	\$ 34,517,310	\$ 42,158,972	\$ 19,526,992	\$ 10,664,017	\$ 10,203,973	\$ 12,860,114	\$ 21,216,615	\$ 21,181,090
Total Fund Balances	\$ 49,814,380	\$ 52,699,710	\$ 59,544,669	\$ 65,245,545	\$ 45,267,329	\$ 36,676,312	\$ 38,464,575	\$ 38,015,239	\$ 45,337,871	\$ 50,755,362

Town of Los Gatos
 Changes in Fund Balances, Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

Schedule 4

	Fiscal Year									
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Revenues:										
Taxes	\$ 27,888,072	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820	\$ 23,269,892
Intergovernmental	4,085,983	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002	2,573,475
Charges for Service	4,269,571	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386	4,773,001
Licenses & Permits	2,705,028	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771	5,442,133
Investment Income	4,179,736	4,190,955	2,949,120	1,174,203	691,022	291,484	(133,380)	772,164	428,735	698,308
Fines and Forfeitures	561,665	369,292	618,771	662,699	737,903	809,790	688,125	795,720	868,564	879,277
Franchise Fees	-	-	-	-	-	-	-	-	2,215,430	2,258,892
Use of Property	-	-	60,749	51,948	38,502	38,974	38,910	37,741	32,209	31,723
Other	110,486	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975	2,396,992
Total Revenues	43,800,541	44,976,665	43,100,650	45,439,566	46,245,149	44,692,043	42,928,334	42,350,268	45,067,892	42,323,693
Expenditures:										
Current										
Public Safety	11,576,850	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198	13,763,316
Public Works	4,956,451	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097	6,307,266
Community Development	2,776,231	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500	3,695,504
Community Services	2,395,429	1,056,835	1,149,290	1,261,981	663,645	-	-	-	-	-
Library Services	1,904,900	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479	2,055,069	2,131,438	2,268,844	2,332,268
Sanitation & Other	387,674	470,660	375,483	642,512	314,899	116,607	359,725	322,817	411,863	452,726
General Government	4,586,513	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451	9,144,797
Redevelopment	2,966,132	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063	21,687	-	-
Capital Outlay	4,689,187	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478	3,241,657
Debt Service										
Principal Repayment	414,167	429,167	445,000	465,000	485,000	934,167	-	-	-	-
Interest and Fiscal Charges	711,346	676,913	638,221	620,356	1,019,881	1,143,185	-	-	-	-
Total Expenditures	37,364,880	42,195,302	43,419,514	56,733,967	66,606,303	48,317,986	41,814,015	38,762,529	38,934,431	38,937,534
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	6,435,661	2,781,363	(318,864)	(11,294,401)	(20,361,154)	(3,625,943)	1,114,319	3,587,739	6,133,461	3,386,159
Other Financing Sources(Uses):										
Debt Issuance	-	-	-	16,428,095	-	-	-	-	-	-
Transfers In	10,611,169	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220	3,315,846
Transfers Out	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)	(1,284,514)
Proceeds from Issuance of Debt	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources(Uses)	1,235,322	103,970	638,823	16,995,276	382,939	73,546	378,031	497,463	1,189,171	2,031,332
Special Item:										
Sale of Property	-	-	6,525,000	-	-	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-	(5,038,620)	295,913	-	-	-
Prepayment of Pension Obligations	-	-	-	-	-	-	-	(4,534,538)	-	-
Total Special Items	-	-	6,525,000	-	-	(5,038,620)	295,913	(4,534,538)	-	-
Net Change in Fund Balances	\$ 7,670,983	\$ 2,885,333	\$ 6,844,959	\$ 5,700,875	\$ (19,978,215)	\$ (8,591,017)	\$ 1,788,263	\$ (449,336)	\$ 7,322,632	\$ 5,417,491
Debt Service as a Percentage of Non Capital Expenditures	3.44%	3.30%	3.04%	2.67%	2.96%	5.56%	0.00%	0.00%	0.00%	0.00%

Subject: FW: meeting follow up

From: Tduryea@aol.com [<mailto:Tduryea@aol.com>]

Sent: Thursday, January 19, 2017 7:05 PM

To: Laurel Prevetti

Cc: Stephen Conway

Subject: Re: meeting follow up

Thanks. Yes, I just received it and am printing out the 132 page document.

I will put my response to the first email with the link that I was in the process of writing in this email instead. Here it is:

Thank you for the link. I just sent an email to Steve asking for the timing of issuing this report. I would have attend the Finance Committee meeting but I will be picking my wife up at the San Francisco airport who will be returning from the Women's March this Saturday in Washington DC.

There is little time to review the 100 plus page CAFR so it would be difficult to ask relevant questions in any case. I have just a couple comments below.

Picking up on your idea we discussed last Friday that the TC is effectively the Town's Board of Directors, I do have questions that members of the Town Council Finance Committee should ask the Independent Auditors. These are questions a Board's Audit Committee would normally ask the outside CPA. The questions all mostly form, but it's important for the Council to ask these questions to show they are fulfilling their responsibilities and holding the Auditor accountable.

I'm not sure of the deadline to get them in prior to the Finance Committee, so I'll include them here:

- * Did the Town Staff give you full cooperation in the conduct of your audit?
- * Did the Town Staff impose any restrictions on the scope of your audit?
- * Were there any adjustments you recommended in the financial statements or to the audited report that the Town did not make?
- * Did you find any material inadequacies in internal control?

Based on a super quick review, I congratulate you and Steve for managing the Town finances in a way that increased the Town's total Net Position \$3.1M and the Unrestricted Reserves \$2.7M.

I am still trying to understand the OPEB and how that is being funded so I look forward to Steve getting back to me on my question. I see we are funding that faster than required by the ARC. I don't understand why we are funding the OPEB faster than required rather than the Misc and Safety Pension Plans (assuming I understand the 2016 CAFR with a total of 5 minute review of 100 plus pages).

With your link, I now have something to do tonight if I have trouble sleeping :-)

Terry

ATTACHMENT 3

Subject: FW: Questions regarding the 2016 CAFR
Attachments: The Town of Los Gatos 2016 CAFR.docx

From: Phil Koen [<mailto:pkoen@monteropartners.com>]
Sent: Sunday, January 22, 2017 9:21 AM
To: Stephen Conway
Cc: Laurel Prevetti; sheldon@cnallp.com; Robert Schultz
Subject: Questions regarding the 2016 CAFR

Steve,

I have attached a document which details a number of questions regarding the 2016 CAFR. I know that you are planning on discussing the 2016 CAFR with the Finance Committee this coming Monday. Please pass these question to the Finance Committee so they are aware of my questions. I would also appreciate confirmation that this has occurred.

Before the Finance Committee can forward the 2016 CAFR to the TC for adoption by resolution, I believe the attached questions need be addressed. In addition to asking for additional information and disclosure on certain items, the attached document also identifies a number of errors in the CAFR that need to be corrected.

Let's take the time to get this document correct. This is an important document and deserves all of our efforts to improve its accuracy and disclosure.

Phil Koen

The Town of Los Gatos 2016 CAFR

Review Questions

Page 34

In 2015 CAFR long term employment benefit was \$3,212,390. In 2016 CAFR it is reported as \$2,694,576. Why has the balance decreased?

In 2015 CAFR long term compensated absences was \$2,176,890. In 2016 CAFR is reported as \$2,089,841. Why has the balance decreased?

Please reconcile the Internal Service Fund Net Position of \$6,632,958 to the Net Position of \$6,635,429 reported on page 101.

Please reconcile the long term compensated absences of \$2,089,841 to the amounts reported on page 53. Total compensated absences is reported to be \$2,339,841 and the current portion is \$1,771,402. On page 33 the current portion is reported to be \$250,000 for all governmental funds.

Please reconcile deferred outflows of resources of \$7,867,905 and deferred inflows of \$10,091,190 to amounts shown in footnote 9.

Page 36

Please reconcile capital expenditures of \$3,107,570 to the \$3,241,657 reported on schedule 4 on page 116.

Page 58

In footnote 1 paragraph G, please discuss the implementation of GASB 77 and 78 and impact on the Town, if any.

Additionally please discuss the upcoming accounting and reporting changes from GASBs 73, 74, 75, 80, 81, 82 and their potential impact on the Town, if any. These changes are discussed in other municipalities CAFR's and would assist the reader in understanding their potential impact.

Page 70

Please reconcile employer pension expense of \$4,121,904 to the \$4,563,036 reported on page 71.

Please provide a summary of changes for the Safety Plan similar to what is reported for the Miscellaneous Plan on page 71, and reconciles the 2016 Net Pension Liability of \$14,468,906 to the 2015 Net Pension Liability of \$17,788,690.

Please explain the difference between the reported Net Pension Liability of \$14,468,906 to the Unfunded Accrued Liability of \$17,003,013 reported on page 8 of the CALPERS Actuarial Valuation of the Safety Plan as of June 30, 2015.

Page 71

Please explain the change in the proportion of Safety Plan Share Percentage Share reported in the 2015 CAFR for June 30, 2014 of .4742% to .2859% for the same period reported in the 2016 CAFR. What is the source of these percentages and why did it change?

Please reconcile employer contributions of \$1,941,765 to \$1,968,043 reported on page 70.

Please explain the changes in assumptions of \$1,513,132 which reduced the 2016 Total Pension Liability.

Page 72

Please explain the source of the change in employer's proportion which created the \$4,212,383 in deferred outflows and the \$7,029,235 in deferred inflows for the Safety Plan. This change has a material impact on the financial statements.

Page 85

Please reconcile all numbers reported for 2015 in the 2016 CAFR to the numbers previously reported in the 2015 CAFR.

Page 86

Please reconcile all numbers reported for 2015 in the 2016 CAFR to the numbers previously reported in the 2015 CAFR.

Page 115

Please correct the Total all Other Governmental Fund for years 2011, 2012 and 2013. There are a number of errors in this schedule.

Page 131

We note that Staff previously reported that bank accounts had not been reconciled on a timely basis for at least 6 months. Why is this not considered a material weakness in internal control? The test of a material weakness is, if this control was not in place, would the lack of the control give rise to a reasonable possibility that a material misstatement of the entity's financial statements could occur and not be corrected in a timely manner. We also note that the Town produced and issued materially incorrect Treasurer's Report for two fiscal quarters as a result of not reconciling their bank accounts.

Based on the facts, if this issue is not a material weakness in internal control, would this be considered a significant deficiency?

How did the auditor adjust their testing procedures or risk assessment based on this breakdown in internal control?

From: Janette Judd
Sent: Monday, January 23, 2017 9:31 AM
To: jvannada@gmail.com
Cc: Laurel Prevetti; Stephen Conway
Subject: FW: A Good Article on the necessity of digging into the details of CAFR's

cc: Town Council
Town Manager

Good morning Jak,

Thank you for your e-mail, received by the Mayor, Town Council, and Town Manager. By copy of this message the Manager's office has also forwarded the message to Steve Conway, Director of Finance and Administrative Services. Steve can be reached at (408) 354-6828 or SConway@LosGatosCA.gov should you have additional comments or questions.

Once again thank you for contacting the Town of Los Gatos.

Best regards,

Janette



Janette Judd • Executive Assistant

Town Manager's Office • 110 E. Main St., Los Gatos CA 95030

Ph: 408.354.6832 • JJudd@LosGatosCA.gov

www.LosGatosCA.gov • <https://www.facebook.com/losgatosca>

Please note upcoming Town closures:

Mon. Feb. 20, 2017 – Presidents Day Holiday

From: jvannada@gmail.com [<mailto:jvannada@gmail.com>]

Sent: Monday, January 23, 2017 8:51 AM

To: Council

Subject: A Good Article on the necessity of digging into the details of CAFR's

<https://www.google.com/amp/www.governing.com/topics/finance/gov-are-annual-financial-reports-useless.html%3FAMP?client=safari>

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jak vannada
Los Gatos Community Alliance

FINANCE

Are Comprehensive Annual Financial Reports Useless?

For all their charts and graphs, CAFRs don't tell public officials -- or the public -- anything about fiscal sustainability or whether a locality's finances might be trending south.

BY JONATHAN WALTERS | SEPTEMBER 2012



Gerard Van der Leun/Flickr CC

They're dense. Only the hardest of souls would dig into a city or county comprehensive annual financial report (CAFR), called "kafers" by those hip to the inner workings of public finance and auditing.

Characterized by a mind-numbing array of charts, graphs and number columns, CAFRs include such heart-palpitating headings as, “Expenditures and Changes in Fund Balances of Governmental Funds” and “Statement of Activities For the Year Ended September 30, 2006.”

That latter and particularly mundane title can be found on page 10 of the Jefferson County, Ala., CAFR. Sept. 30, 2006, however, is anything but an ordinary date in the history of Jefferson County’s finances. By that date, the county was well on its way toward experiencing the largest local government fiscal meltdown in U.S. history.

Yet even a trained auditor reading the 2006 CAFR would conclude that the county’s finances were OK. That, of course, is more than a little surprising inasmuch as the financial misconduct that eventually led to the county’s defaulting on billions of dollars in sewer upgrade bonds had been in full swing for a decade.

In other words, the scandal that would sweep a host of public officials into jail and the county into a financial sinkhole had been whirlpooling along for nearly a dozen years. Those years had been covered by as many CAFRs, apparently without a hint of what was actually going down with the county’s finances.

Indeed, the only concern expressed by the 2006 CAFR related to the county sewer system was on the fourth-to-last page of the 128-page report: a short note indicating that the county might not be properly billing every customer who was tapped into the county’s gold-plated new sewer system.

“You look at the Harrisburgs and the Scrantons and the Jefferson Counties and you naturally ask, ‘How did we not know this was coming five or 10 years in advance?’” says Joe Stefco, who follows public finance for the Rochester, N.Y.-based Center for Governmental Research. And for that matter, one might question where the red flags were on Stockton, Compton or San Bernardino, Calif., or even Central Falls, R.I.?

The question of how officials failed to foresee such colossal fiscal calamities is naturally linked with the question of who ought to be blamed for such blindness. In Jefferson County’s case, looking beyond the actual perpetrators, it would be natural to blame the person who signed off on the CAFRs, including the very last one released before the scandal splashed across the national news, the Sept. 30, 2006 report. In that case, the seeming culprit would be Ronald L. Jones, chief examiner for

the Alabama Department of Public Accounts, who expressed no concern whatsoever about the contents of the county's CAFR. Blaming Jones, however, wouldn't really be fair.

"Comprehensive" may have the ring of authority to it, suggesting that CAFRs are some sort of exhaustive and accurate look at a government's true financial health. Certainly trying to lift one off a desk would suggest that there's nothing the report could possibly have missed by way of financial accounting and investigation. But all CAFRs really are is a snapshot of a government's finances at a given point in time; at best, they're a look backward for a year. "It's a thorough documentation of financial actions over the course of a fiscal year," says Sam Tyler, president of the Boston Municipal Research Bureau. "But it's a year after the fact."

For all their charts and graphs, CAFRs don't tell public officials -- or the public -- anything about fiscal sustainability or whether a locality's finances might be trending south. That's just as true for those localities teetering toward insolvency for mundane reasons -- like lousy fiscal management or just unhappy circumstances -- as it is for those that have been fleeced by a crowd of bad actors (or as in the recent case of Dixon, Ill., merely one bad actress).

That's the key point worth making, say those who want to improve government financial reports. They want the information to offer earlier warnings of fiscal trouble ahead. What might push a local government into deep fiscal despair probably won't be a scandal like Jefferson County's or Bell, Calif.'s.

What actually sinks city and county finances is that slow, steady accretion of bad -- and hidden -- fiscal news that either nobody is getting or no one wants to hear. That news invariably takes the form of commitments to future spending, like bond and pension obligations, as well as other liabilities, such as deteriorating or outdated infrastructure versus the jurisdiction's revenues to cover those commitments and liabilities.

What really cripples municipal finances comes on relatively slowly -- then avalanches. By the time anyone figures out something's wrong, it's often too late for any moderate corrective action; only bankruptcy, state oversight or emergency fiscal managers will do.

What do I do with a CAFR?” asks Cameron Smith, who, as policy director for the Alabama Policy Institute, has spent a considerable amount of time sifting through the wreckage of the Jefferson County crash. Even if there was truly damning information contained in a CAFR, it would be hard to find, says Smith. He sees CAFRs as a potentially insidious exercise in “flood[ing] the market with data that no one knows what to do with.”

Some of the best auditors in the country find even their own jurisdiction’s CAFRs daunting. Mike Eglinski, performance auditor for Lawrence, Kan., says he remembers the day four years ago when the Lawrence CAFR landed on his desk for the first time. “What am I going to do with this?” Eglinski remembers asking himself. “It’s half an inch thick, 121 pages long and there could easily be something fascinating and important on page 79 right in the middle of the page,” which, he hastens to add, even the most astute and conscientious auditor might miss for the sheer density of the surrounding 120 pages. “And some of the things you’ll read, you can’t tell whether it’s a good thing or a bad thing. Is it up or is it down?”

The questions about CAFRs now being debated in the public-sector finance and auditing community are very much along the lines of Smith’s and Eglinski’s: What, in the larger sense, should we make of CAFRs? What should we do with them? Can they be made more useful?

The focus of the debate on these questions currently revolves around a proposal floated earlier this year by the Governmental Accounting Standards Board (GASB) to include more “forward-looking” information in CAFRs based on current policy and known facts. It is a very preliminary proposal for how CAFRs might be made more useful in recognizing potential financial trouble. Details for how that might be done have yet to be worked out, but would involve some sort of out-years projections model that would take into consideration significant projected spending obligations in relation to projected revenues.

The proposal already is taking a lot of flak from the public-sector finance community. This is not an unfamiliar position for a GASB proposal. Finance officers often complain that the board is overly meddlesome when it comes to telling governments what they ought to reveal about their long-range fiscal prospects.

“Unless someone has a crystal ball and is smarter than anyone born today, no one can predict with certainty in five years what the fiscal condition of a state or locality is going to be,” says Jeff Esser, executive director of the Government Finance Officers Association, which has come out against the new GASB standard. “The Federal Reserve can’t do it with the U.S. or the global economy, and I don’t know of anyone who can do it for state or local economies.”

Esser has a lot of company in his skepticism around GASB’s idea for a more meaningful CAFR. Utah Deputy State Auditor Joe Christensen, in a Feb. 13, 2012, comment letter, argues that any such projections would be way too subjective to be meaningful, and that any benefit derived from such attempts would not be worth the cost. “It really comes down to the fact that auditors and financial people are used to dealing with information that comes from the past,” says Christensen, who has been a public-sector auditor for 26 years. “Shifting from historic financial statement to projections is something that auditors aren’t comfortable with.”

Tyler at the Boston Municipal Research Board sees this as myopia. He, like Stefc0 in Rochester, notes the number of cities nationally that are now in or very near bankruptcy. “There’s plenty of evidence out there that a number of cities could have used this information to see that they were headed in the wrong direction,” Tyler says.

Furthermore, Tyler notes, some jurisdictions are already doing projections, including Boston, where the budget office does an annual, internal three-year-out budget. “If a state or a city is well managed, they’re already doing it,” Tyler says. “We just wish that the information was more public. But CAFR doesn’t require that, and it would be helpful if there was a requirement.”

While the debate over CAFR and budget projections continues, some in the public sector aren’t waiting around for the financial world to figure out how to make CAFRs more useful. They’re doing it themselves. One of those people is Lawrence’s Eglinski.

Rather than succumb to the brain numbness delivered by the Lawrence CAFR, Eglinski decided he needed some context, so he started doing two things: Looking at past Lawrence CAFRs and collecting CAFRs from cities with similar characteristics to Lawrence. “It takes comparison and looking at CAFRs over time,” Eglinski says, for them to begin to reveal important trends.

By going through several years’ worth of Lawrence CAFRs, for example, Eglinski noticed that revenues for municipal trash collection previously had covered the city’s costs of collection and disposal, but were no longer doing so. Eglinski put this in the “risk” category and alerted city officials to focus on turning it around. Changes in staffing and equipment have moved the program back into the black. Eglinski also noticed a troubling trend around Lawrence’s own sewer and water system: More and more revenues from sewer and water fees were being diverted to the general fund, which he worried might threaten system upkeep.

By comparing Lawrence’s CAFR to other cities, Eglinski says he’s helped elected officials ask much better questions about the cost of longer-term obligations, like the potential cost of the city’s promises for pensions and other post-employment benefits (OPEB). “You’ll see cities that have 10 or 20 times larger OPEB obligations, so the question is whether that city’s governing body knows that, but you only learn that through comparison.”

That’s pretty much where the Alabama Policy Institute has arrived. Policy director Smith says the institute has spent “a tremendous amount of resources trying to chew through the information in a couple of Jefferson County CAFRs pre-meltdown.” So far, he says, there haven’t been any striking revelations that would have suggested disaster. The institute is also doing a multi-jurisdictional CAFR analysis to see whether such comparisons might yield valuable intelligence about whether one jurisdiction might be in a more precarious fiscal position than another.

But absent some more predictive, digestible reporting model, it’s clear that slogging away in the trenches is the only way to make CAFRs more meaningful. “It’s information that on its own certainly isn’t going to identify problems,” says Eglinski. “The CAFR is a document that people understand is significant. It’s just hard to figure out what in it is critical.”