

**TOWN OF LOS GATOS  
CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

**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 28,910. 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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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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# TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December 17, 2010

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, 2010. This report was prepared by management and the Finance staff in the Town Manager's Department, 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, 2010, 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 new 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 and Town administrative personnel, and organization chart delineating organizational structure.
- II. The Financial Section includes the independent auditors' opinion, management's discussion and analysis, 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 C.G. Uhlenberg 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 14 square miles with a population of 30,802. This relatively slow growth over the first 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 elected 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, Community Services and a Public Library.

This report includes all funds of the Town of Los Gatos. It also includes the financial activities of the Los Gatos Redevelopment Agency which is governed by the Los Gatos Town Council who sit as the board members for the Agency. Financial information for the Los Gatos Redevelopment Agency is aggregated and merged with that of the Town in the financial statements in accordance with generally accepted accounting principles.

### **ECONOMIC CONDITIONS AND OUTLOOK**

Consistent with other Silicon Valley communities, the Town of Los Gatos has been impacted by the effects of the national economic downturn. As a result of the recession, the Town has experienced significant reductions in two of its economically sensitive revenues: sales tax and revenues related to private development activity.

In recent 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, strategic expenditure slowdowns, and departmental cost saving efficiencies among other strategies that have allowed the Town to remain fiscally balanced during these challenging economic times.

General Fund revenues (including operating transfer-ins) declined by approximately \$182,428 from the prior year. The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 27% of General Fund revenues in FY 2009/10. The FY 2009/10 \$8.3 million sales tax receipts were \$170,000 lower than the prior year's collection. This decrease in sales tax due to the continued effects of the national economic recession combined with a loss of a significant auto dealership. Other smaller declines were experienced in revenue related to private development activity including "charges for services" and "licenses and permits."

Property tax revenue (accounting for 31% of Town general fund revenues), however increased 0.5% from the prior year, mitigating some of the revenue losses sustained due to the economy. This increase is mainly the result of two factors. The first factor is the turnover of "Proposition 13" parcels to new owners. In most cases, the properties are reassessed at the current market value, resulting in additional tax revenue. The second factor is that property in the Town remains very desirable, keeping home prices generally strong. Despite the slow economic recovery, the Town continues to strategically use its Economic Vitality program to ensure fiscal health for the Town.

The Town continues to experience challenges due to the State of California's budget deficit. Since 1991, the State has diverted or taken portions of Town revenues such as property taxes to balance its fiscal equation. In FY 2008/09 the State imposed an approximate \$480,000 property tax "take" from the Town's Redevelopment Agency which was later ruled unconstitutional by the California Courts. Unfortunately the State was successful in taking an additional \$2.2 million in redevelopment funds in FY 2009/10 with another planned take scheduled for FY 2010/11. As a result of the State's actions, voters recently passed Proposition 22, a measure that prohibits the State from seizing redevelopment funds and other local governmental revenue. This initiative, coupled with the passage of proposition 1A in 2005, will provide needed revenue stability protection for the future.

The Town has managed to limit the effects of State revenue reductions with pro-active strategic budgetary changes and expenditure reductions made on an organizational basis. Despite the reductions to various state sources of local government revenue, the Town's high level of services were maintained, and the General Fund continued in strong fiscal health through FY 2009/10. The Town will continue to work diligently through its outreach efforts to the community, the League of California Cities, and local legislators to prevent any future revenue losses.

### **MAJOR INITIATIVES**

Despite the ongoing revenue challenges, FY 2009/10 was a year of high activity centering on two priority capital projects. First, the new Police Operations Building on Los Gatos Boulevard opened in the Fall 2009. This project required renovations and additions (approximately \$2.4 million in the fiscal year) which resulted in a 12,000 square foot operations center for the Police Department. The second public building is

the new Los Gatos Library. The construction of the new 30,000 square foot library began, which will be an environmentally “green” building as well as offering adequate space for a wide range of library services. The conceptual design for the library was completed in the fiscal year, and is expected to open in 2012.

The Town and Redevelopment Agency continued its efforts in addressing the critical capital asset and infrastructure needs of the Town. Approximately \$16.0 million in Town infrastructure and other capital asset improvements were made in the year, including \$9.0 million for land acquisition investments related to affordable housing, and the Town’s planned new sports facility (\$4.5 million and \$3.5 million respectively), bridge improvements totaling \$1.2 million, \$435,000 in building and site improvements for the new library building, \$40,000 in curb, gutter and sidewalk improvements, \$150,000 in retaining wall repairs, \$507,000 for traffic signal improvements, and \$452,000 for various parking lot improvements. In addition approximately \$995,000 was invested in the Town’s streets, including improvements to major arterials and neighborhoods to enhance pedestrian and traffic safety.

Additional infrastructure improvements were scheduled in accordance with the Town’s approved Capital Improvement Plan, and will continue into the following years. All of these improvements are funded either through debt issuance, with grant assistance, or via revenues accumulated from prior years due to budget savings and excess revenues that Town Council policy strategically allocated for this purpose.

### **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,
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh its 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 by resolution 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, 2009 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 C.G. Uhlenberg 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 Jenny Haruyama, Assistant Finance Director, Glenda Cracknell, Accountant/Finance Analyst; Linda Isherwood, Accountant/Finance Analyst and Gitta Ungvari Administrative Analyst, for their efforts in preparing this report.

Respectfully submitted,



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Greg Larson  
Town Manager



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Stephen D. Conway  
Director of Finance & Administrative Services

**TOWN OF LOS GATOS  
PRINCIPAL OFFICERS  
JUNE 30, 2010**

**TOWN COUNCIL**

Mayor

Vice Mayor

Council Member

Council Member

Council Member

Diane McNutt

Joe Pirzynski

Steve Rice

Barbara Spector

Mike Wasserman

**COUNCIL APPOINTEES**

Town Manager

Acting Town Attorney

Greg Larson

Michael Martello

**APPOINTED OFFICIALS**

Assistant Town Manager

Chief of Police

Community Development Director

Community Services Director

Finance and Administrative Services Director

Human Resources Director

Library Director

Parks and Public Works Director

Pamela Jacobs

Scott Seaman

Wendie Rooney

Regina Falkner

Stephen Conway

Rumi Portillo

Peggy Conaway

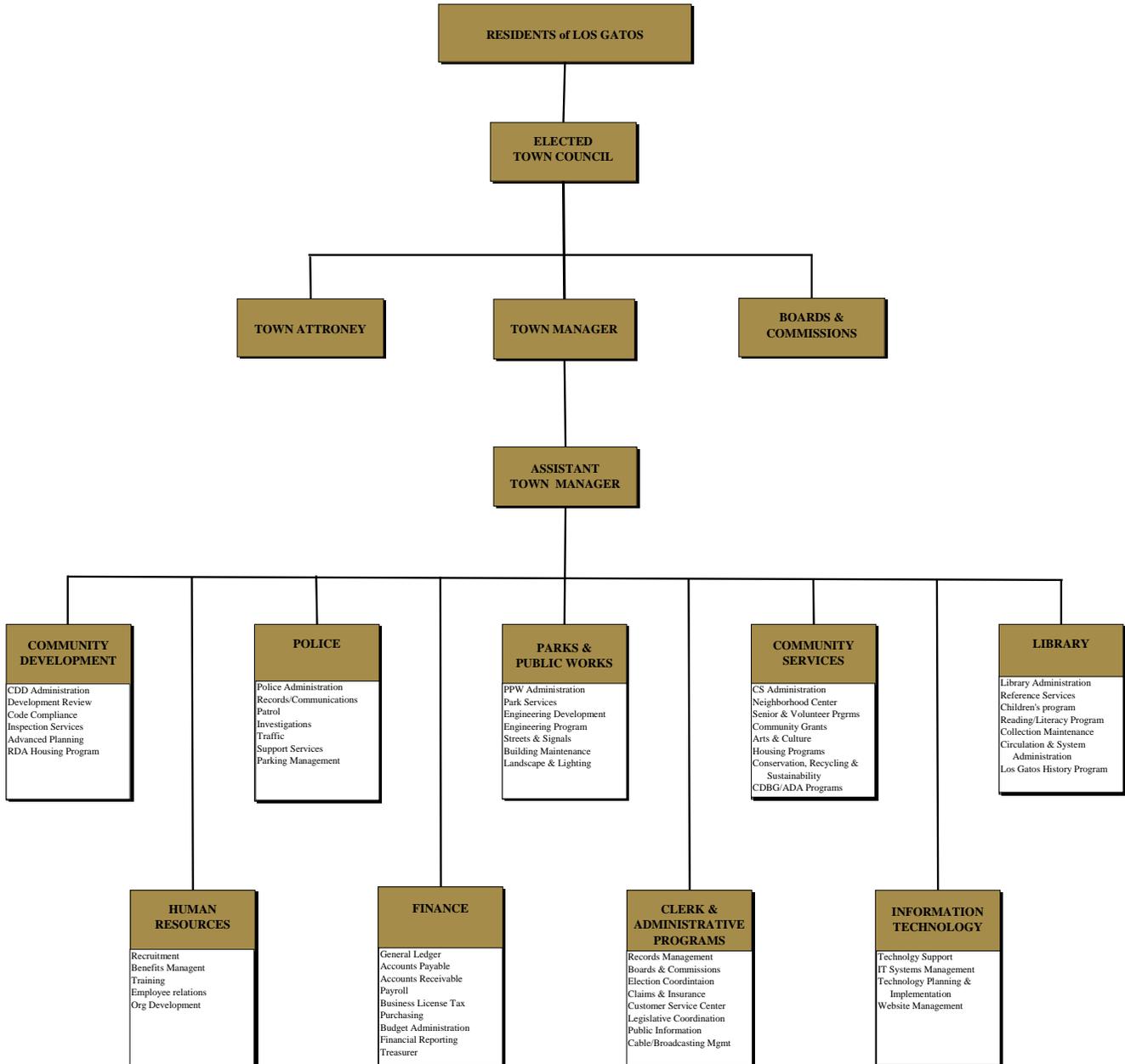
Todd Capurso

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# Town of Los Gatos

## Organizational Structure



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# 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, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized handwritten signature in black ink, appearing to be "H.R." or similar initials.

President

A handwritten signature in black ink that reads "Jeffrey R. Enos".

Executive Director

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**C. G. UHLENBERG LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and Members of Town Council  
Town of Los Gatos, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as a part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2010 on our consideration of the Town's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 56 through 75 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.

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 and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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.

*C. D. Uhlenberg LLP*

December 17, 2010  
Redwood City, California

## ***Management's Discussion and Analysis***

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## 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, 2010. 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 2009/10 by \$124,044,771 (net assets). Of this amount, \$47,191,225 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's net assets increased by \$4,096,194 during the fiscal year. The increase is mostly due to expenditure savings in the General Fund and redevelopment revenues exceeding budget estimates for the fiscal year.
- Total fund balances for governmental funds at year end were \$65,245,545, an increase of \$5,700,876 (10%) from the prior year. The aforementioned increase was largely attributable to General Fund expenditure budget savings and redevelopment revenues exceeding expenditures.
- At the end of FY 2009/10, unreserved fund balance for the General Fund was \$21,586,573, approximating 65% of General Fund expenditures for the current fiscal year.
- The Town and Redevelopment Agency continued its efforts in addressing the critical capital asset and infrastructure needs of the Town. Approximately \$16.1 million in Town infrastructure and other capital asset improvements were made in the year, including \$9.0 million for land acquisition investments related to affordable housing, and the Town's planned new sports facility (\$4.5 million and \$3.5 million respectively), bridge improvements totaling \$1.2 million, \$435,000 in building and site improvements for the new library building, \$40,000 in curb, gutter and sidewalk improvements, \$150,000 in retaining wall repairs, \$507,000 for traffic signal improvements, and \$452,000 for various parking lot improvements. In addition approximately \$995,000 was invested in the Town's streets, including improvements to major arterials and neighborhoods to enhance pedestrian and traffic safety.

### 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 assets* – presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, redevelopment, 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 is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide redevelopment in the Town. Additional information on this legally separate entity can be found in Note 1(A) 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.

**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 28-55 of this report.

**Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets exceeded liabilities by \$124 million at the end of the current fiscal year.

**Town of Los Gatos  
Net Assets**

	Governmental Activities	
	2010	2009
Current and other assets	\$ 96,424,621	\$ 90,722,619
Capital assets	76,147,647	62,720,506
Total assets	<u>172,572,268</u>	<u>153,443,125</u>
Current liabilities	18,190,600	19,996,221
Long-term liabilities outstanding	30,336,897	13,498,327
Total liabilities	<u>48,527,497</u>	<u>33,494,548</u>
Net assets:		
Investment in capital assets, net of related debt	66,248,489	52,666,506
Restricted	26,723,994	15,663,436
Unrestricted	31,072,288	51,619,635
Total net assets	<u>\$ 124,044,771</u>	<u>\$ 119,948,577</u>

Capital assets represent approximately 44.1% 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, *Investment in Capital Assets, Net of Related Debt* increased by approximately \$13.6 million. The increase is the net result of approximately \$16 million in infrastructure and other capital improvement made in the year.

An additional portion of the Town’s net assets (21.5%) represents resources that are subject to external restrictions on how they may be used. The *Restricted Net Asset* balance is composed largely of the Town’s Redevelopment Agency Capital Projects and Low and Moderate Housing Funds which provide financing for low and moderate income housing opportunities and capital projects which serve the Town and its redevelopment project area.

The balance of *Unrestricted Net Assets* may be used to meet the Town’s ongoing obligations to citizens, customers, and creditors. The Town’s *Unrestricted Net Assets* represent 25.0% of the Town’s net assets at year end.

## Governmental activities

**Town of Los Gatos  
Statement of Activities  
For the Year Ended June 30, 2010**

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 8,016,656	\$ 6,192,143
Operating grants and contributions	850,395	1,422,186
Capital grants and contributions	3,074,453	1,330,638
General revenues:		
Property taxes	18,856,081	18,343,063
Sales taxes	8,317,217	8,487,000
Other taxes	2,623,622	2,664,698
Motor Vehicle In Lieu	92,595	101,265
Investment earnings	1,155,929	2,949,119
Gain on Sale of Property	-	5,841,138
Other	52,459	66,802
<b>Total revenues</b>	<b>43,039,407</b>	<b>47,398,051</b>
Expenses:		
Police Department	13,266,849	13,467,503
Parks and Public Works	7,458,085	7,987,816
General government	4,647,801	5,323,467
Community Development	3,522,477	3,389,151
Redevelopment	6,636,270	2,939,550
Library Services	2,038,009	2,067,476
Community Services	966,055	1,162,284
Sanitation	655,713	407,048
Interest and fees	612,700	631,159
<b>Total expenses</b>	<b>39,803,959</b>	<b>37,375,454</b>
Increase in net assets	3,235,448	10,022,597
Net assets, beginning	119,948,577	109,925,980
Prior period adjustments	860,746	-
<b>Net assets, ending</b>	<b>\$ 124,044,771</b>	<b>\$ 119,948,577</b>

As shown in the schedule above, governmental activities for the year increased the Town's Net Assets by \$4,096,194. Key elements of the increase in net assets are as follows:

- Property Tax revenues collected for the Town and the Redevelopment Agency accounted for 43.8 % of total Town revenues. In the midst of a national recession, property tax revenue held strong, increasing 2.8 % from the prior year. The increase from the prior year amount is mainly due to two factors. The first factor is the gain resulting from the turnover of "pre-Proposition 13" parcels to new owners. In most cases, the property is reassessed at the current market value, generating higher taxes collected for that parcel. The second factor is that property in the Town remains very desirable; home prices remained strong, reflecting the continued desirability of the Town.

- Sales Tax revenue of \$8.3 million accounted for 19.3 % of Town total revenues for the year. This 2.0% decrease of approximately \$170,000 from the prior year collections is due large part to a general decline in sales tax resulting from the national recession and loss of a significant auto dealership.
- Other Taxes, Other Revenues, and Motor Vehicle in Lieu Taxes of \$2,716,217 accounted for 6.3% of total revenues, decreasing moderately from the prior year's amount of \$2,765,963 because of the economy.
- Investment Earnings of \$1,155,929 accounted for 2.7% of total revenues, a 60.8% decrease from the prior year. This reduced the size of the invested portfolio interest rate position relative to the market in prior years.

Total expenditures increased approximately \$2,428,505 or 6.5% from the prior year. A large portion of the increase was due to the first year of a two year implementation of a State of California budget "take" of approximately \$2.2 million for the Supplemental Educational Reallocation Account Fund (SERAF) payment made by the redevelopment agency during the fiscal year and increases in redevelopment tax increment tax sharing "pass through" account payments made to local taxing districts.

#### **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 2009/10, the Town's governmental funds reported combined ending fund balances of \$65,245,545, an increase of \$5,700,876 in comparison with the prior year. The majority of this increase is from the General Fund expenditure budget savings and redevelopment property tax revenues exceeding estimates.

Approximately 56.86 % or \$37,101,224 of the total amount of governmental fund balances of \$65,245,545 constitutes unreserved fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is reserved and is not available for new spending because it has already been committed to: 1) pay debt service (\$465,490); 2) provide for loans/advances due to the Town (\$1,500,000); 3) provide for appropriated capital projects (\$20,933,143); 4) provide for low and moderate housing (\$5,140,056); and 5) to provide for dedicated repair and maintenance in lighting and landscape districts (\$105,632).

*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, unreserved fund balance of the General Fund was \$21,586,573, while total fund balances were \$23,086,573. The General Fund net overall fund balance decreased to \$23,086,573. General fund revenues decreased by \$182,428 from the prior year. The largest decrease occurred in the sales tax revenues of approximately \$169,783 due to the general effect on sales tax resulting from the national economic recession. General Fund expenditures (excluding transfers-out) increased \$2,444,159 from the prior fiscal year. The biggest factor contributing to the overall increase in expenditures was the one-time expenditure of approximately \$3.1 million for the purchase of land for new sports park facility. Excluding that expenditure item, General Fund expenditures actually decreased slightly from the prior year.

### 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 balances increased approximately \$13,250,826 from the prior year due to debt issuance made in the fiscal year.

Certificates of Participation (COP) RDA Debt Service Fund. The COP RDA Debt Service Fund balance totals \$7,419,222, all of which is reserved or designated for the payment of debt service for Town and Redevelopment Agency activities. The net fund balance decreased in the debt service fund by \$568,890 due to the net effect of tax increments received during the fiscal year and a one-time payment of approximately \$2.2 million made to the State of California as part of a budget "take" related to the State's budget crisis.

Redevelopment Agency Low & Moderate Housing Capital Projects Fund. This fund is used as the primary capital projects fund for the Town's Redevelopment Agency's low and moderate income housing capital program. Fund balances decreased approximately \$3,491,069 from the prior year due to land acquisition expenditures for low and moderate housing.

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 decreased approximately \$1,549,205. Redevelopment Agency Capital Projects Fund balances decreased approximately \$656,610 from the prior year due to remaining expenditures for approved capital improvements including the new police facility and library building made in the fiscal year.

### **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: Worker's Compensation; Self Insurance; Stores; Vehicle Maintenance; Building 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 and 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 \$370,318 and \$160,198 respectively versus \$216,151 and \$37,029 in the prior year. The increase in operating income in the Equipment Replacement from the prior year is attributable to a general slowing down of equipment replacement as one part of the organizational response to the national recession.

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 \$111,271, (\$7,087) and \$34,936 respectively. Revenues exceeded expenditures in the Building Maintenance Fund due decreased heating,

ventilation and air conditioning maintenance and repair costs experienced in the prior year. Management information systems also experienced savings on anticipated repairs and replacements.

The Worker's Compensation and Self Insurance Fund charge premiums based on exposure levels by department for liability, property, Worker's compensation and self-insurance costs. Net operating income before transfers at year end was \$142,095 and (\$13,064) respectively, versus (\$776) and \$236,256 in the prior year. Operating income increases for the year in the Worker's Compensation and decreases in the Self Insurance funds reflect the experience of loss claims in the current year from the prior year in the worker's compensation and the similar claims experience in the current year as the prior year in the general liability arena.

**GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:**

**Budget Adjustments**

Comparing the FY 2009/10 original budget (or adopted) General Fund amount of \$32,572,253 (including budgeted transfers-out), the final budget amount of \$36,078,489 shows a net increase of \$3,506,236. Additions to the original budget included approved additions of \$2,989,130 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carryforwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$32,572,253	\$154,118	\$-0-	\$3,352,118	\$36,078,489

The increase in General Fund appropriations occurred from the following budget adjustments:

- The General Fund appropriated budget was increased by \$3,100,000 to finance the Sport Facility land purchase.
- Other General Fund adjustments included a saving of \$95,200 in building maintenance expenses due to lease of the Neighborhood Center to the Los Gatos-Saratoga Recreation Department.
- The elimination a Senior Coordinator position and temporary sharing of administrative staff through a joint agreement with the Los Gatos Saratoga Recreation Department generated \$84,000 in salary/benefit savings.

Comparing the FY 2009/10 final amended budget to the actual result shows \$1.9 million operational saving due to various cost saving methods. These steps included selected hiring freezes, strategic expenditure slowdowns, and departmental cost saving efficiencies among other strategies.

**Capital Assets**

The Town's investment in capital assets for its governmental activity as of June 30, 2010, is recorded at \$76,147,647 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2009/10 the Town's \$16 million investment in capital assets for the current year represented approximately 21% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$4.5 million in land acquisition investments related to affordable housing;
- \$3.5 million land acquisition investments for a future sports facility,
- \$1.2 million for bridge improvements;
- \$995,000 for streets improvements;
- \$507,000 for traffic signal improvements;
- \$435,000 in building and site improvements for the new library building;
- \$452,000 for various parking lot improvements; and
- \$190,000 for curb, gutter and sidewalk improvements and retaining wall repairs.

**June 30, 2010**  
**Town of Los Gatos**  
**Capital Assets (net of accumulated depreciation)**

	Governmental Activities
Land	\$ 24,999,455
Construction in Progress	2,058,926
Buildings	12,516,161
Equipment	3,003,776
Infrastructure	33,569,329
	\$ 76,147,647

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

**Debt Administration**

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$26,018,095. The entire liability is comprised of debt backed by the Town's obligation to pay lease payments to the Town's Redevelopment Agency. The Town's long-term obligations outstanding as of June 30, 2010 consist of the following:

**Town of Los Gatos**  
**Outstanding Debt June 30, 2010**

	Governmental Activities
Certificates of Participation	\$ 26,018,095
Total Outstanding Debt	26,018,095

The Town's debt obligations increased by \$15,963,095 during the fiscal year. The increase resulted from the issuance of an 18-year Certification of Participation in the original amount of \$15,675,000, dated June 1, 2010. The COPs are being issued to finance the construction of the new Town Library. The rating of the Town's certificates of participation series from Moody's ranges from Aaa to Aa2 and in May 2009 the Town was one of twelve California cities to receive a ratings upgrade from Standard & Poor's, raising two notches from AA- to AA+. Additional information on the Town's long-term debt can be found in Note 6 of this report.

During the development and adoption of the Town's FY 2010/11 budget, the Town Council and management considered the following factors:

- The Town anticipated modest decreases in sales tax growth for FY 2010/11. Early in 2010 the Town experienced declines in retail sales tax resulting due to the effects of a national recession coupled with the loss of Honda dealership in the Fall 2009. Conservative sales tax estimates for FY 2010/11 were budgeted reflecting a moderate decrease (approximately \$300,000) from the prior year's adopted sales tax of approximately \$8.7 million dollars. With sales tax representing approximately 25% of the Town's General Fund revenues, further declines in local sales tax collections will significantly impact the Town.
- General property tax collections represent approximately 31% of the Town's General Fund revenues and reflect modest revenue growth of approximately 5% (not including the State's property tax "backfill" shifts). The Town is encouraged by the continuous trend of no negative growth in property tax collections, despite the slow economy. The growth in property taxes is largely attributable to the increase in assessed valuation that occurs upon the turnover of housing stock in the Town.
- The Town's investment portfolio experienced a decline in its overall weighted average annual yield, lowering from 2.5% at June 30, 2009 to 1.92% at June 30, 2010. Due to a continued forecast of declining interest rates for FY 2010/11 and reduced cash balances from prior years, investment earnings are expected to be lower than the prior year. Budgeted estimates have been reduced by \$280,000 from the adjusted budget estimate of \$1.3 million in the prior year. This trend was built into the adopted budget estimates for the FY 2010/11.
- Transient Occupancy Tax (TOT) revenues are expected to be lower in FY 2010/11 due to declines in travel and tourism. Given the reduction in travel activity, the FY 2010/11 TOT revenues were budgeted at \$989,000. An 8 % decrease from the FY 2009/10 adopted budget. This change reflects the anticipated room rate reductions and expected decline in tourism and business travel.

### **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.

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## ***Basic Financial Statements***

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**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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The purpose of the Statement of Net Assets 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 Assets report the Town's total assets and liabilities, 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 assets (assets minus liabilities). The Statement of Net Assets 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 assets 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 assets. From these components, the change in net assets is computed and reconciled to the Statement of Net Assets.

Both of these statements include the financial activities of the Town and the Redevelopment Agency of the Town of Los Gatos, which is a legally separate, but a component unit of the Town because it is controlled by the Town, which is financially accountable for its activities.

The Statement of Net Assets, 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" replaces the term "General Purpose Financial Statements" which is no longer used.

**TOWN OF LOS GATOS, CALIFORNIA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 3)	\$ 74,049,000
Restricted cash and investments (Note 3)	17,637,287
Receivables:	
Accounts	2,187,827
Interest	189,965
Intergovernmental	755,729
Materials, supplies and deposits	25,076
Long term notes receivables (Note 4)	1,579,737
Capital Assets (Note 6):	
Nondepreciable	27,058,381
Depreciable, net of accumulated depreciation	49,089,266
Total Assets	\$ 172,572,268
<b>LIABILITIES</b>	
Accounts payable	\$ 2,706,634
Accrued payroll and benefits	3,841,227
Accrued interest payable	192,620
Pass through obligations	3,210,934
Due to Other Governments	1,935
Unearned Revenue	4,584,369
Deposits	3,160,842
Claims payable (Note 12)	492,039
Long-term liabilities:	
Due within one year	
Compensated absences (Note 1)	1,225,838
Certificates of participation (Note 7)	485,000
Due in more than one year	
Post retirement benefits (Note 11)	2,024,863
Compensated absences (Note 1)	1,068,101
Certificates of participation (Note 7)	25,533,095
Total Liabilities	\$ 48,527,497
<b>NET ASSETS (Note 9)</b>	
Invested in capital assets, net of related debt	\$ 66,248,489
Restricted for:	
Capital projects	19,524,130
Housing	5,140,056
Community development	185,305
Debt service	465,490
Redevelopment projects	1,409,013
Total Restricted Net Assets	26,723,994
Unrestricted	31,072,288
Total Net Assets	\$ 124,044,771

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, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Police department	\$ 13,266,849	\$ 2,110,357	\$ 81,997	\$ -	\$ (11,074,495)
Parks and public works	7,458,085	779,300	594,775	3,074,453	(3,009,557)
General government	4,647,801	1,337,772	10,237	-	(3,299,792)
Community development	3,522,477	3,423,467	-	-	(99,010)
Redevelopment	6,636,270	19,380	-	-	(6,616,890)
Library services	2,038,009	57,633	13,996	-	(1,966,380)
Community services	966,055	153,746	124,287	-	(688,022)
Sanitation	655,713	135,000	25,103	-	(495,610)
Interest and fees	612,700	-	-	-	(612,700)
<b>Total Governmental Activities</b>	<b>\$ 39,803,959</b>	<b>\$ 8,016,656</b>	<b>\$ 850,395</b>	<b>\$ 3,074,453</b>	<b>(27,862,455)</b>
<b>General revenues:</b>					
<b>Taxes:</b>					
					18,856,081
					8,317,217
					2,623,622
					92,595
					1,155,929
					52,459
					<u>31,097,903</u>
					Change in Net Assets 3,235,448
					Net Assets - Beginning 119,948,577
					Prior Period Adjustments (Note 2) <u>860,746</u>
					<u>Net Assets - Ending \$ 124,044,771</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, 2010**  
**FUND FINANCIAL STATEMENTS &**  
**MAJOR GOVERNMENTAL FUNDS**

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***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, 2010. 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.

**Certificates of Participation Fund** is used to account for the Certificates of Participation issued to finance several capital improvement projects throughout the Town.

**Redevelopment Agency Affordable Housing Fund** is used for the implementation of the Agency's required Affordable Housing Set-Aside Program obligations

**TOWN OF LOS GATOS, CALIFORNIA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2010**

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Low & Moderate Housing	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash & Investments	\$ 28,380,016	\$ 11,422,073	\$ 12,513,635	\$ 5,164,285	\$ 4,335,898	\$ 61,815,907
Restricted cash & investments	-	16,118,937	465,490	-	1,015,867	17,600,294
Receivables:						
Accounts	554,820	1,632,029	-	-	-	2,186,849
Interest	189,965	-	-	-	-	189,965
Intergovernmental Receivable	513,470	89,668	8,022	2,006	142,563	755,729
Advances to Other Funds	1,500,000	-	-	-	-	1,500,000
<b>Total Assets</b>	<b>\$ 31,138,271</b>	<b>\$ 29,262,707</b>	<b>\$ 12,987,147</b>	<b>\$ 5,166,291</b>	<b>\$ 5,494,328</b>	<b>\$ 84,048,744</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 769,766	\$ 633,017	\$ 856,991	\$ 20,093	\$ 210,316	\$ 2,490,183
Accrued payroll and benefits	3,789,310	4,824	-	6,142	8,799	3,809,075
Pass Through Obligations	-	-	3,210,934	-	-	3,210,934
Due to other governments	1,790	-	-	-	-	1,790
Deferred revenue	283,984	4,170,519	-	-	129,866	4,584,369
Deposits	3,160,842	-	-	-	-	3,160,842
Advance from Other Funds	-	-	1,500,000	-	-	1,500,000
Compensated Absences	46,006	-	-	-	-	46,006
<b>Total Liabilities</b>	<b>8,051,698</b>	<b>4,808,360</b>	<b>5,567,925</b>	<b>26,235</b>	<b>348,981</b>	<b>18,803,199</b>
<b>FUND BALANCE</b>						
Reserved for:						
Capital Outlay	-	16,118,937	-	-	4,814,206	20,933,143
Debt Service	-	-	465,490	-	-	465,490
Advances to Other Funds	1,500,000	-	-	-	-	1,500,000
Repair and Maintenance	-	-	-	-	105,632	105,632
Low & Moderate Housing	-	-	-	5,140,056	-	5,140,056
Unreserved, designated for:						
Vasona Land Sale	2,991,589	-	-	-	-	2,991,589
Open Space	562,000	-	-	-	-	562,000
Post Retirement Medical	400,000	-	-	-	-	400,000
Parking	-	1,460,210	-	-	-	1,460,210
Market Fluctuations	526,525	-	-	-	-	526,525
Sustainability	190,553	-	-	-	-	190,553
Productivity Enhancements	100,000	-	-	-	-	100,000
Economic Uncertainty	3,678,001	-	-	-	-	3,678,001
Capital Projects	4,231,246	6,853,200	-	-	-	11,084,446
Carryover	127,340	-	-	-	-	127,340
Comcast PEG	-	22,000	-	-	-	22,000
Revenue Stabilization Fund	5,903,680	-	-	-	-	5,903,680
Debt Service	-	-	6,953,732	-	-	6,953,732
Special Revenue Fund	-	-	-	-	225,509	225,509
Undesignated	2,875,639	-	-	-	-	2,875,639
<b>Total Fund Balances</b>	<b>23,086,573</b>	<b>24,454,347</b>	<b>7,419,222</b>	<b>5,140,056</b>	<b>5,145,347</b>	<b>65,245,545</b>
<b>Total Liabilities and Fund Balan</b>	<b>\$ 31,138,271</b>	<b>\$ 29,262,707</b>	<b>\$ 12,987,147</b>	<b>\$ 5,166,291</b>	<b>\$ 5,494,328</b>	<b>\$ 84,048,744</b>

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 ASSETS – GOVERNMENTAL**  
**ACTIVITIES**  
**JUNE 30, 2010**

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<b>Fund Balance-Total Governmental Funds</b>	<b>\$ 65,245,545</b>
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:</p>	
<b>CAPITAL ASSETS</b>	
Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	76,147,647
<b>ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS</b>	
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 Assets.	11,555,353
<b>ALLOCATION OF INTEREST ON LONG TERM DEBT</b>	
Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the Governmental Funds.	(192,620)
<b>LONG-TERM LIABILITIES</b>	
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	
Certificates of Participation	\$ (26,018,095)
Post Retirement Benefits	(2,024,863)
Compensated absences	<u>(2,247,933)</u>
	(30,290,891)
<b>LONG-TERM NOTES RECEIVABLES</b>	
In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue.	<u>1,579,737</u>
<b>Net Assets-Governmental Activities</b>	<b><u><u>\$ 124,044,771</u></u></b>

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 YEAR ENDED JUNE 30, 2010**

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Low & Moderate Housing Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property Taxes	\$ 9,775,954	\$ -	\$ -	\$ -	\$ 33,510	\$ 9,809,464
Property Tax Increments	-	-	9,768,775	-	-	9,768,775
Less: Election Amount	-	-	(745,912)	-	-	(745,912)
Sales Taxes	8,317,217	-	-	-	-	8,317,217
Other Taxes	2,627,974	80,279	-	-	109,587	2,817,840
Licenses & Permits	2,977,199	-	-	-	-	2,977,199
Intergovernmental	878,656	2,654,421	-	-	549,648	4,082,725
Charges for Services	4,055,322	227,752	-	-	135,000	4,418,074
Fines and forfeitures	662,699	-	-	-	-	662,699
Interest	870,512	-	163,530	50,648	89,513	1,174,203
Use of Property	51,948	-	-	-	-	51,948
Other	1,135,659	22,000	931,371	16,044	259	2,105,333
<b>Total Revenues</b>	<b>31,353,140</b>	<b>2,984,452</b>	<b>10,117,764</b>	<b>66,692</b>	<b>917,517</b>	<b>45,439,565</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General Government	5,483,753	-	-	-	-	5,483,753
Public Safety	12,821,498	-	-	-	-	12,821,498
Parks and Public Works	5,123,973	-	-	-	28,772	5,152,745
Community Development	3,412,914	40,000	-	-	-	3,452,914
Community Services	708,496	-	-	-	553,485	1,261,981
Library Services	1,999,430	-	-	-	-	1,999,430
Sanitation and Other	218,377	309,158	-	-	114,977	642,512
Redevelopment	-	-	7,221,725	827,563	642,927	8,692,215
Capital Outlay	3,515,181	6,502,803	-	4,534,771	1,588,806	16,141,561
<b>Debt service:</b>						
Principal	-	-	465,000	-	-	465,000
Interest & Fees	-	-	620,356	-	-	620,356
<b>Total Expenditures</b>	<b>33,283,622</b>	<b>6,851,961</b>	<b>8,307,081</b>	<b>5,362,334</b>	<b>2,928,967</b>	<b>56,733,965</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,930,482)</b>	<b>(3,867,509)</b>	<b>1,810,683</b>	<b>(5,295,642)</b>	<b>(2,011,450)</b>	<b>(11,294,400)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Debt Issuance	-	15,675,000	-	-	-	15,675,000
Debt premium	-	753,095	-	-	-	753,095
Transfers in	814,696	834,636	-	1,804,573	575,000	4,028,905
Transfers (out)	(825,000)	(144,396)	(2,379,573)	-	(112,756)	(3,461,725)
<b>Total Other Financing Sources (Uses)</b>	<b>(10,304)</b>	<b>17,118,335</b>	<b>(2,379,573)</b>	<b>1,804,573</b>	<b>462,244</b>	<b>16,995,275</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(1,940,786)</b>	<b>13,250,826</b>	<b>(568,890)</b>	<b>(3,491,069)</b>	<b>(1,549,206)</b>	<b>5,700,875</b>
<b>BEGINNING FUND BALANCES</b>	<b>25,027,359</b>	<b>11,203,521</b>	<b>7,988,112</b>	<b>8,631,125</b>	<b>6,694,553</b>	<b>59,544,670</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 23,086,573</b>	<b>\$ 24,454,347</b>	<b>\$ 7,419,222</b>	<b>\$ 5,140,056</b>	<b>\$ 5,145,347</b>	<b>\$ 65,245,545</b>

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, 2010**

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<b>Net change in Fund Balances - Total Governmental Funds</b>		<b>\$ 5,700,875</b>
Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:		
<b>CAPITAL ASSET TRANSACTIONS</b>		
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	\$ 16,018,198	
Current Year Depreciation	<u>(2,591,058)</u>	13,427,140
<b>LONG-TERM DEBT PROCEEDS AND PAYMENTS</b>		
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		(16,428,095)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Certificates of participation		465,000
<b>ACCRUAL OF NON-CURRENT ITEMS</b>		
The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):		
Interest payable		7,654
Compensated absences		70,146
Post retirement benefits		(971,155)
<b>ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY</b>		
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.		244,892
<b>LONG TERM NOTES RECEIVABLES AND ASSOCIATED DEFERRED REVENUE</b>		
Expenditures to establish deferred revenue associated with long term notes receivables are recorded for Statement of Revenues, Expenditures and Changes in Fund Balances, however, they have no impact on the Statement of Activities		566,185
Interest income from long term notes receivables is recorded on the Statement of Activities but is considered a resource not available for governmental funds		58,141
The issuance of long term notes receivables is recorded as an expenditure on the governmental funds but increases long-term assets in the Statement of Net Assets		<u>94,665</u>
<b>Change in Net Assets - Governmental Activities</b>		<b><u>\$ 3,235,448</u></b>

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 YEAR ENDED JUNE 30, 2010**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Property Taxes	\$ 9,248,120	\$ 9,548,120	\$ 9,775,954	\$ 227,834
Sales Taxes	8,677,460	8,377,460	8,317,217	(60,243)
Other Taxes	2,774,260	2,724,260	2,627,974	(96,286)
Licenses & Permits	3,027,130	2,727,130	2,977,199	250,069
Intergovernmental	796,090	710,165	878,656	168,491
Charges for Services	4,055,495	4,035,995	4,055,322	19,327
Fines and forfeitures	496,040	596,040	662,699	66,659
Interest	1,580,000	1,300,000	870,512	(429,488)
Use of Property	61,675	50,675	51,948	1,273
Other	1,369,228	1,369,228	1,135,659	(233,569)
<b>Total Revenues</b>	<b>32,085,498</b>	<b>31,439,073</b>	<b>31,353,140</b>	<b>(85,933)</b>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Town Council	159,321	166,015	160,697	5,318
Town Attorney	214,912	261,056	252,369	8,687
Administrative Services	2,361,441	2,375,636	2,363,715	11,921
Non-Departmental	3,261,970	3,163,035	2,706,972	456,063
<b>Total General Government</b>	<b>5,997,644</b>	<b>5,965,742</b>	<b>5,483,753</b>	<b>481,989</b>
Public Safety	12,926,566	12,950,329	12,821,498	128,831
Community Development	3,843,823	3,917,957	3,412,914	505,043
Parks & Public Works	5,602,015	5,625,998	5,123,973	502,025
Community Services	1,040,033	875,609	708,496	167,113
Library Services	2,067,116	2,144,866	1,999,430	145,436
Sanitation & Other	270,056	266,762	218,377	48,385
Capital Outlay	-	3,506,224	3,515,181	(8,957)
<b>Total Expenditures</b>	<b>31,747,253</b>	<b>35,253,487</b>	<b>33,283,622</b>	<b>1,969,865</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>338,245</b>	<b>(3,814,414)</b>	<b>(1,930,482)</b>	<b>(2,055,798)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	338,040	617,280	814,696	197,416
Operating transfers (out)	(825,000)	(825,000)	(825,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(486,960)</b>	<b>(207,720)</b>	<b>(10,304)</b>	<b>197,416</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (148,715)</b>	<b>\$ (4,022,134)</b>	<b>(1,940,786)</b>	<b>\$ (1,858,382)</b>
<b>FUND BALANCE, BEGINNING</b>			<b>25,027,359</b>	
<b>FUND BALANCE, ENDING</b>			<b>\$ 23,086,573</b>	

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, 2010**

**PROPRIETARY FUNDS -  
INTERNAL SERVICE FUNDS**

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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 ASSETS  
 JUNE 30, 2010**

	<u>Governmental Activities Internal Service Funds</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments available for operations (Note 3)	\$ 12,233,093
Restricted cash and cash equivalents (Note 3)	36,993
Accounts Receivable	978
Materials, supplies, and deposits	<u>25,076</u>
Total current assets	<u>12,296,140</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Note 6)	<u>61,326</u>
Total noncurrent assets	<u>61,326</u>
Total Assets	<u><u>\$ 12,357,466</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 216,451
Accrued payroll and benefits	32,152
Due to other governments	<u>145</u>
Total current liabilities	248,748
Noncurrent liabilities:	
Claims payable (Note 12)	<u>492,039</u>
Total noncurrent liabilities	492,039
Total Liabilities	<u><u>\$ 740,787</u></u>
<b>NET ASSETS (Note 9)</b>	
Invested in capital assets	\$ 61,326
Restricted for workers compensation claims	36,993
Unrestricted	<u>11,518,360</u>
Total Net Assets	<u><u>\$ 11,616,679</u></u>

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

**TOWN OF LOS GATOS, CALIFORNIA  
 PROPRIETARY FUNDS -  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2010**

	Governmental Activities Internal Service Funds
<b>OPERATING REVENUES</b>	
Charges for services	\$ 4,121,582
Interest	39
Other	156,559
	4,278,180
 <b>OPERATING EXPENSES</b>	
Salaries and related expenses	1,003,588
Insurance expenses	310,796
Depreciation	13,401
Services and Supplies	2,151,728
	3,479,513
 Operating Income	798,667
 Transfers in (Note 5)	8,990
Transfers (out) (Note 5)	(576,170)
	(567,180)
 Change in Net Assets	231,487
 <b>BEGINNING NET ASSETS</b>	11,385,192
 <b>ENDING NET ASSETS</b>	\$ 11,616,679

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 YEAR ENDED JUNE 30, 2010**

	<u>Governmental Activities Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 4,284,506
Payments to suppliers	(1,615,811)
Payments to employees	(1,006,528)
Claims paid	(941,241)
	720,926
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers In	8,990
Transfers Out	(576,170)
Net cash provided (used) by noncapital financing activities	(567,180)
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</b>	
Acquisition of Capital Assets	136
	136
Cash Flows used by capital related Financing Activities	136
Net Cash Flows	153,882
Cash and investments at beginning of period	12,116,204
Cash and investments at end of period	\$ 12,270,086
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities:</b>	
Operating Income	798,667
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	13,401
Change in assets and liabilities:	
Receivables, net	6,326
Other assets	7,169
Accounts payable and other accrued expenses	48,207
Other accrued expenses	(152,844)
Cash Flows From Operating Activities	\$ 720,926

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, 2010**

**FIDUCIARY FUNDS**

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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.

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 ASSETS  
JUNE 30, 2010**

	PRIVATE PURPOSE TRUST	AGENCY FUND
	Library	Parking Improvement District #88
<b>ASSETS</b>		
Cash and investments (Note 3)	\$ 339,536	\$ 46,752
Restricted cash and investments (Note 3)	-	279,606
Intergovernmental receivable	-	358,913
<b>Total Assets</b>	<b>339,536</b>	<b>\$ 685,271</b>
<b>LIABILITIES</b>		
Accounts payable	275	\$ -
Due to other governments	-	685,271
<b>Total Liabilities</b>	<b>275</b>	<b>\$ 685,271</b>
<b>NET ASSETS</b>		
Reserved for library trust	339,261	
<b>Total Net Assets</b>	<b>\$ 339,261</b>	

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

**TOWN OF LOS GATOS  
PRIVATE PURPOSE LIBRARY TRUST FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Trust Fund</u>
<b>ADDITIONS</b>	
Interest	\$ 6,540
Other	<u>20,738</u>
Total Additions	<u>27,278</u>
<b>DEDUCTIONS</b>	
Library services	<u>21,572</u>
Total Deductions	<u>21,572</u>
<b>CHANGE IN NET ASSETS</b>	5,706
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>333,555</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 339,261</u></u>

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

***Notes to Basic Financial Statements***

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**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**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, emergency management and fire services), parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and redevelopment. Redevelopment services are provided primary through the Redevelopment Agency of the Town.

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, 2010 was 30,802.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government, with its component unit for which the Town is considered financially accountable. The component unit discussed below is included in the Town's reporting entity because of the significance of their operational and financial relationships with the Town.

**B. Description of Blended Component Units**

The following component unit, although a legally separate entity, is reported as if it was part of the primary government because the Town Council is that component unit's governing body or it provides services entirely to the Town. Under the blended method of inclusion, the component units' balances and transactions are reported in a manner similar to the balances and transactions of the Town itself.

The Town of Los Gatos Redevelopment Agency (the "Agency") was established as a result of the Loma Prieta Earthquake in 1989 and the need to rebuild existing infrastructure. The Redevelopment Agency area encompasses approximately 440 acres in and around Downtown Los Gatos, which includes retail and residential areas, lodging, schools, and main traffic thoroughfares. Projects such as street and utility reconstruction, parking, streetscape and civic improvements were called out in the Plan. The Agency is governed by the Town Council in a separate capacity from the Town as members of the Redevelopment Agency Board.

The financial statements of the Agency's can be obtained from the Town of Los Gatos at 110 East Main St., Los Gatos, California, 95031.

**C. Description of Joint Ventures and Public Entity Risk Pool**

As described in Note 12, 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**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*.

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

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities display information about the primary government (the Town) and its component units. 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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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 Statement 34 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, liabilities, 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.

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.

**Certificates of Participation Fund** is used to account for the Certificates of Participation issued to finance several capital improvement projects throughout the Town.

**Redevelopment Agency Affordable Housing Fund** is used for the implementation of the Agency's required Affordable Housing Set-Aside Program obligations.

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, management information, and equipment replacement.

**Fiduciary Funds** include Private-Purpose Trust Funds and 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 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:

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**History Project 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 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 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.

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

**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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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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.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net assets 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 follows statements and interpretations of the Financial Accounting Standards Board and its predecessors issued on or before November 30, 1989, in accounting for its business-type activities, unless those pronouncements conflict with GASB pronouncements.

**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** for the Town, as well as for its component units, are reported at fair value. The value is determined based upon market closing prices. The fair value of mutual funds is stated at share value.

**Materials, Supplies and Deposits** 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** between funds and due from/to other funds are offset by a fund balance reserve account in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

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**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 market value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

As required by GASB Statement 34, 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.

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%

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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 Assets.

The changes of the compensated absences were as follows:

Beginning Balance		\$ 2,389,619
Additions		1,259,705
Payments		<u>(1,355,385)</u>
Ending Balance		<u>\$ 2,293,939</u>
Current Portion		<u>\$ 1,225,838</u>

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.

**Long-Term Liabilities** - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. 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.

**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.

**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.

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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 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.

**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 reservations 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.

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

**G. Upcoming Accounting and Reporting Changes**

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Town is currently evaluating the impact of this pronouncement on its financial statements.

The GASB has issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", which expands the use of the alternative measurement method to an agent employer government that has an individual-employer OPEB plan with fewer than 100 total plan members. The Statement also provides guidance about the frequency and timing of measurements by governments that participate in agent multiple-employer other postemployment benefit plans and how those measurements must be coordinated with the reporting needs of the agent multiple-employer OPEB plan itself. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. The Town is currently evaluating the impact of this pronouncement on its financial statements.

The GASB has issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged. The Town is currently evaluating the impact of this pronouncement on its financial statements.

**2. CHANGE IN FINANCIAL STATEMENT PRESENTATION AND PRIOR PERIOD ADJUSTMENT**

During the current year, the Town has determined that long term notes receivables and associated deferred revenue were presented incorrectly in prior years. To correct this error, notes receivables and associated deferred revenue were eliminated on fund financials. The deferred revenue on government-wide Statement of Net Assets was also eliminated. This change had no impact on fund balances but increased beginning net assets by \$860,746.

**3. 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

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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 market 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 \$7,897,091 as of June 30, 2010. 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, except for non-interest bearing transaction accounts at institutions participating in FDIC's Temporary Liquidity Guarantee Program, which are provided with unlimited deposit insurance coverage. As of June 30, 2010, \$7,647,091 of the Town's cash balance was not insured by FDIC and was 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.

The Town invests in the California State Treasurer's Local Agency Investment Fund (LAIF). 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, 2010, LAIF had approximately \$71 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The Town's investments with LAIF at June 30, 2010 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

**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.

**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.

As of June 30, 2010 the Town had \$20,995,480 invested in LAIF, which had invested 5.42% of the pool investments funds in Structured Notes and Asset-Backed Securities. The Town valued its investments with LAIF by multiplying its account balance with a fair value factor determined by

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LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (69,555,776,591) by total aggregate amortized cost (69,441,630,091) resulting in a factor of 1.001643776.

*Custodial Credit Risk* - This 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 and Interest Rate Risk Policies* - 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, 2010.

The following table summarizes the Town's 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%

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The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2010.

<u>Investment Type/Cash Deposit</u>	<u>Available for Operations</u>	<u>Restricted</u>	<u>Total</u>	<u>Investment Rating</u>	<u>Concentration of Credit Risk</u>	<u>Time to Mature (Years)</u>	<u>Weighted Average Maturity</u>
U.S. Government Agency securities:							
Union Bank(1)	\$ 45,615,192	\$ -	\$ 45,615,192	Aaa/AAA	54%	1.53	0.83
Government Securities Money							
Market Mutual Funds	421,693	17,270,679	17,692,372	Not Rated	21%		
LAIF	<u>20,849,240</u>	<u>146,240</u>	<u>20,995,480</u>	Not Rated	<u>25%</u>	0.56	0.14
Total Investments	66,886,125	17,416,919	84,303,044		100%		
Cash Deposits with Banks	7,545,013	220,368	7,765,381				
Certificates of Deposit	-	279,606	279,606				
Cash on hand at Town	<u>4,150</u>	<u>-</u>	<u>4,150</u>				
Total Cash and Investments	<u>\$ 74,435,288</u>	<u>\$ 17,916,893</u>	<u>\$ 92,352,181</u>				

(1) Limited to US Agency Obligations with liquid markets and readily determinable fair market values, including FHLB, FNMA, Freddie Mac, FFCB, 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.

	<u>Total Town</u>	<u>Fiduciary Funds</u>	<u>Totals</u>
Cash and investments available for operation	\$ 74,049,000	\$ 386,288	\$ 74,435,288
Restricted cash and investments	<u>17,637,287</u>	<u>279,606</u>	<u>17,916,893</u>
Total cash and investments	<u>\$ 91,686,287</u>	<u>\$ 665,894</u>	<u>\$ 92,352,181</u>

**Marking Investments to Fair Value** - The Town adopted Governmental Accounting Standards Board (GASB) Statement 31, which requires that the Town's investments be carried at fair value instead of cost. Under GASB 31, the Town must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

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**4. LONG-TERM NOTES RECEIVABLE**

The Town had the following long-term notes receivable as of June 30, 2010:

Description	Interest Rate	Maturity	Balance
<b>General Fund:</b>			
Open Doors Associates, Ltd.	7%	2024	\$ 627,705
<b>Community Development Block Grant Fund (CDBG):</b>			
Active Home Loans	Various	Various	205,525
Open Doors Associates, Ltd.	7%	2024	82,733
Housing Conservation Loans	0-5%	Various	98,660
Total CDBG			<u>386,918</u>
<b>Redevelopment Agency Affordable Housing Fund (RDA Housing)</b>			
Project Match	Various	Various	470,449
Dittos Lane Family Housing, L.P.	3%	Various	94,665
Total RDA Housing			<u>565,114</u>
Total Long-Term Notes Receivable			<u>\$ 1,579,737</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 loan a maximum amount of \$339,250 to Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. As of June 30, 2010, \$710,438 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 uses CDBG Fund (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 Agency entered into a loan agreement with Project Match, a nonprofit benefit corporation to acquire and rehabilitate four or five bedroom single family homes. The

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property is to 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. Since inception of the loan till June 30, 2010, no interest or principal payment has been made.

**Dittos Predevelopment Loan** – During the year ended June 30, 2010, the Town entered into a loan agreement with Dittos Lane Family Housing, L.P., a California limited partnership, in the principal amount of \$94,665. The loan is used to redevelop the affordable housing rental property, a maximum of 32 townhouse style apartments, and secured by the property. In addition, the loan repayments including principal, interest, late charges, prepayment fees, reasonable costs, and etc. are guaranteed by ROEM Development Corporation, a company affiliated with the borrower.

**5. 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 due to or due from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

As of June 30, 2010, inter-fund receivables and payables consisted of the following:

	Advances From Other Funds	Advances To Other Funds
	<u>          </u>	<u>          </u>
General Fund	\$ -	\$ 1,500,000
Certificates of Participation	1,500,000	-
Total	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

The General Fund has an advance of 1,500,000 to the Certificates of Participation Debt Service Fund to finance Agency operations.

**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.

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Transfers between funds during the fiscal year ended June 30, 2010 were as follows:

<u>Funds Making Transfers</u>	Fund Receiving Transfers					
	<u>General Fund</u>	<u>Appropriated Reserve</u>	<u>Internal Service</u>	<u>Redevelopment Low and Moderate Housing</u>	<u>Nonmajor Governmental</u>	<u>Total Transfers Out</u>
General Fund	\$ -	\$ 825,000	\$ -	\$ -	\$ -	\$ 825,000
Certificates of Participation	-	-	-	1,804,573	575,000	2,379,573
Appropriated Reserve	135,406	-	8,990	-	-	144,396
Internal Service	568,370	7,800	-	-	-	576,170
Nonmajor Governmental	110,920	1,836	-	-	-	112,756
<b>Total Transfers In</b>	<b><u>\$ 814,696</u></b>	<b><u>\$ 834,636</u></b>	<b><u>\$ 8,990</u></b>	<b><u>\$ 1,804,573</u></b>	<b><u>\$ 575,000</u></b>	<b><u>\$ 4,037,895</u></b>

**6. CAPITAL ASSETS**

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

	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010
<b>Capital Assets not being depreciated:</b>				
Land	\$ 17,348,389	\$ 7,651,066	\$ -	\$ 24,999,455
Construction in Progress	438,488	1,620,438	-	2,058,926
<b>Total capital assets not being depreciated</b>	<b><u>17,786,877</u></b>	<b><u>9,271,504</u></b>	<b><u>-</u></b>	<b><u>27,058,381</u></b>
<b>Capital Assets being depreciated:</b>				
Buildings and Improvements	13,743,088	3,690,959	-	17,434,047
Equipment & Vehicle	8,765,705	834,279	729,827	8,870,157
Infrastructure - All Other	7,712,317	1,226,566	-	8,938,883
Infrastructure - Streets	44,060,271	994,890	-	45,055,161
<b>Total capital assets being depreciated</b>	<b><u>74,281,381</u></b>	<b><u>6,746,694</u></b>	<b><u>729,827</u></b>	<b><u>80,298,248</u></b>
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	4,653,305	264,581	-	4,917,886
Equipment and Improvements	5,853,816	742,392	729,827	5,866,381
Infrastructure - All Other	819,600	246,135	-	1,065,735
Infrastructure - Streets	18,021,030	1,337,950	-	19,358,980
<b>Total accumulated depreciation</b>	<b><u>29,347,751</u></b>	<b><u>2,591,058</u></b>	<b><u>729,827</u></b>	<b><u>31,208,982</u></b>
<b>Net capital assets being depreciated</b>	<b><u>44,933,630</u></b>	<b><u>4,155,636</u></b>	<b><u>-</u></b>	<b><u>49,089,266</u></b>
<b>Governmental activity capital assets, net</b>	<b><u>\$ 62,720,507</u></b>	<b><u>\$ 13,427,140</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 76,147,647</u></b>

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**Depreciation Allocation** - 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	\$ 203,141
Public Safety	332,698
Parks & Public Works	1,802,110
Community Development	74,129
Community Services	12,799
Library	34,713
Sanitation	29,775
Redevelopment	101,693
Total Governmental Activities	\$ 2,591,058

**7. 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. The Town's bonded debt issues and transactions are summarized below in the schedule of changes in long-term debt and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
1992 Certificates of Participation, 5-9%, due 8/1/2012	\$ 2,960,000	\$ 685,000	\$ -	\$ 215,000	\$ 470,000	\$ 230,000
2002 Certificates of Participation, Series A, 2.5-5%, due 8/1/2031	10,725,000	9,370,000	-	250,000	9,120,000	255,000
2010 Certificates of Participation, 2.5-4.25%, due 8/1/2028	15,675,000	-	15,675,000	-	15,675,000	-
Total Long-Term Debt	\$ 29,360,000	\$ 10,055,000	\$ 15,675,000	\$ 465,000	\$ 25,265,000	\$ 485,000

**1992 Certificates of Participation (1992 COPs)** - The Town issued 1992 COPs in the original principal amount of \$2,960,000 dated August 1, 1992 to finance certain construction costs of the Town's Parking Lot 4 Project, which was constructed on land located in the Los Gatos Central Redevelopment Project Area. The COPs are similar to bond debt as they allow investors to participate in a share of guaranteed payments. Because they are similar to debt, the present value of the total of the payments to be made is recorded as long-term debt. Principal payments are due annually on August 1<sup>st</sup>, which interest payments payable semi-annually on February 1<sup>st</sup> and August 1<sup>st</sup>. The Town has pledged motor vehicle license fee revenues as collateral for the repayment of the Certificates.

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**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 has 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.

**2010 Certificates of Participation (2010 COPs)** - On June 1, 2010, the Town issued \$15,675,000 in 2010 COPs 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 1992, 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 Redevelopment Agency Capital Projects Fund for the Project Area.

Future debt service requirements of the 1992, 2002, and 2010 Certificates of Participation (collectively the "COPs") as of June 30, 2010, were as follows:

For the Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 485,000	\$ 864,486
2012	1,035,000	1,053,726
2013	925,000	1,017,971
2014	955,000	980,577
2015	990,000	938,055
2016-2020	5,540,000	4,034,537
2021-2025	6,805,000	2,693,908
2026-2030	7,260,000	1,057,451
2031	1,270,000	64,250
	<u>\$ 25,265,000</u>	<u>\$ 12,704,961</u>

The Agency must maintain 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 Town fails to meet its obligations under the COPs issue and totaled \$940,387 at June 30, 2010.

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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.

**8. 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. The principal amount of the non-obligated debt outstanding was \$490,000 as of June 30, 2010 and was excluded from the Town's financial statements.

**9. NET ASSETS AND FUND BALANCES**

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

**Net Assets** - Net Assets is the excess of all the Town's assets over all its liabilities, regardless of each fund. Net Assets are divided into three captions under GASB Statement 34.

These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the Town's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter. These principally include debt service requirements and redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted to use.

**Reservations of Fund Balances** - Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of fund balance or retained earnings that has been appropriated for expenditure or is legally segregated for a specific future use. As of June 30, 2010, portions of fund balance had been reserved because of the following:

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*Encumbrances* are reserved to encumber fund balance for purchase order commitments made before fiscal year end.

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

*Debt Service* reserves reflect the cash balances in the debt service funds that are restricted for debt service payments.

*Advances to Other Funds* are reserved to reflect long-term loans to other funds that are not available for expenditure.

*Repairs and Maintenance* reserves reflect 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.

*Low & Moderate Housing* reserves reflect the amounts to be expended for low and moderate-income housing or rental rehabilitation.

**Designations of Fund Balances** - A portion of unreserved fund balance may be designated to indicate plans for financial resource usage in a future period, such as for general contingencies or capital projects. As of June 30, 2010, portions of unreserved fund balance had been designated for the following purposes and the remaining balance is unreserved.

*Vasona Land Sale* designations will be used for acquisition and development of a new Town sports park.

*Open Space* designations will be used to make selective open space acquisitions.

*Post Retirement Medical* designations will be used to aid in funding actuarially determined requirements for retiree medical costs.

*Parking* designations will be used to mitigate parking issues within the Town.

*Market Fluctuations* designations will be used to mitigate parking issues within the Town.

*Sustainability* designations will be used to fund ongoing sustainability initiatives and programs.

*Productivity Enhancement* designations will be used to fund requests that result in streamlining or improving existing service levels.

*Economic Uncertainty* designations will be used to fund future fluctuations in the economy that are not currently foreseen. This designation is calculated at 25% of the 2003-04 operating budget.

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*Capital Projects* designations will be used for the acquisition and construction of capital facilities.

*Carryover* designations will be used for encumbered items re-appropriated in the following year.

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

*Revenue Stabilization* designations will be used to mitigate the cyclical changes in locally generated revenues from temporary downturns in the local economy, or "one-time" revenue losses where recovery of the revenue base is deemed likely in the near future.

*Debt Service* designations will be used to fund the future payments of principal and interest on long-term debt.

*Special Revenue Fund* designations will be used for the activities of the respective revenue fund.

**Excess of Expenditures over Appropriations** – No general fund or special revenue funds have expenditures in excess of budget for the year ended June 30, 2010.

## **10. EMPLOYEES' RETIREMENT PLAN**

**Plan Description** - The Town of Los Gatos contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. 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** - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2010 was 14.584% of annual covered payroll for non-safety (miscellaneous) and 33.838% for safety employees. The contribution requirements of plan members and the Town are established and may be amended by PERS.

**Annual Pension Cost** - For fiscal year ended June 30, 2010, the Town's \$3,041,472 annual pension cost for PERS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.0% inflation;

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(d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.0% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

**Three Year Trend Information PERS**

**Safety Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	1,569,903	100%	-
6/30/2009	1,633,426	100%	-
6/30/2010	1,638,539	100%	-

**Miscellaneous Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	1,255,648	100%	-
6/30/2009	1,200,192	100%	-
6/30/2010	1,402,933	100%	-

**Plan Actuarial Value and Funding Progress (Required Supplementary Information)**

The information presented below relates to the cost-sharing plans as a whole, of which the Town of Los Gatos is one participating employer.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**Safety Plan:**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$ 7,278,049,834	\$ 6,102,615,567	\$ 1,175,434,267	83.8%	\$ 754,730,438	155.7%
2007	\$ 7,986,055,176	\$ 6,826,599,459	\$ 1,159,455,717	85.5%	\$ 831,607,658	139.4%
2008	\$ 8,700,467,733	\$ 7,464,927,716	\$ 1,235,540,017	85.8%	\$ 914,840,596	135.1%

**Miscellaneous Plan:**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$ 49,962,417	\$ 45,930,398	\$ 4,032,019	91.9%	\$ 8,628,525	46.7%
2007	\$ 55,198,246	\$ 50,026,550	\$ 5,171,696	90.6%	\$ 8,739,598	59.2%
2008	\$ 59,377,787	\$ 53,904,084	\$ 5,473,703	90.8%	\$ 9,643,094	56.8%

**11. 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 provides the contribution 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, 2010, the Town contributed \$949,845 to the plan, including \$399,845 for current premiums (approximately 70% of total premiums) and an additional \$550,000 to prefund benefits. Plan members receiving benefits

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

contributed \$185,874, or approximately 30% of the total premiums, through their required contribution of \$472 per month for retiree-only coverage and \$643 for retiree and spouse coverage.

**Annual OPEB Cost and Net OPEB Obligation** - As of June 30, 2010 and for the year then ended, the Town's Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

<b>NOO as of June 30, 2009</b>		\$ 1,053,708
Annual OPEB Cost		
Annual Required Contribution	1,953,000	
Interest on NOO	58,000	
NOO adjustment	(90,000)	
		1,921,000
Contributions made (includes benefit payments)		(949,845)
<b>NOO as of June 30, 2010</b>		<b>\$ 2,024,863</b>

**Trend Information** - Three-year trend information will be presented in 2011. FY 08/09 was the year of implementation of GASB No. 43 and GASB No. 45 and the Town has elected to implement prospectively. As such, comparative data for prior years is not available.

Year	Actual Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 1,800,000	\$ 746,292	41%	\$ 1,053,708
2010	1,921,000	949,845	49%	2,024,863

**Funded Status and Funding Progress** - As of January 1, 2010, the most recent actuarial valuation date, the plan was 2.4% funded. The actuarial accrued liability (AAL) for benefits was \$17,712,000 and the actuarial value of plan assets was approximately \$425,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,287,000. The covered payroll (annual payroll of active employees covered by the plan) was \$13,477,000 and the ratio of UAAL to the covered payroll was 128%.

**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.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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In the January 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Investment return of 5.25% per annum for the FY 08/09, trending upward 0.25% – 0.30% per year to 7.75% in FY 17/18.
2. Projected salary increases of 3.25%.
3. The annual healthcare cost trend rate of 4.5% is the ultimate rate. The select rates were 9.7% – 10.9% depending on plans but were reduced to the ultimate rate in 2017.
4. Total inflation is assumed to increase 3.0% annually.
5. Amortization method: Level percentage of payroll.
6. Amortization period:
  - a. 30-year closed period for initial unfunded actuarial accrued liability (UAAL) (28 years remaining as of June, 30, 2010)
  - 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
7. Actuarial method for valuing assets: Investment gains and losses spread over a 5-year rolling period, not less than 80% nor more than 120% of market value.

**Plan Actuarial Value and Funding Progress (Required Supplementary Information)**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$ 14,265,000	\$ -	\$ 14,265,000	0.0%	\$ 13,372,000	106.7%
2010	17,712,000	425,000	17,287,000	2.4%	13,477,000	128.3%

**12. 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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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for vehicle damage. Once the Town's deductible is met, ABAG becomes responsible for payment of all claims up to the limit. Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2009, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total Assets	\$	44,979,622
Total Liabilities		17,617,173
Net Assets	\$	<u>27,362,449</u>
Total Operating Revenue	\$	9,615,371
Total Operating Expense		<u>14,980,964</u>
Net Operating Income		(5,365,593)
General Revenue		<u>2,643,949</u>
Change in Net Assets		(2,721,644)
Beginning Net Assets		<u>30,084,093</u>
Ending Assets	\$	<u>27,362,449</u>

**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 6371 Auburn Blvd., Suite B, Citrus Heights, California, 94604-2050. Condensed full accrual basis audited financial information of LAWCX as of and for the year ended June 30, 2009, is as follows:

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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Total Assets	\$ 42,235,314
Total Liabilities	<u>29,895,891</u>
Net Assets	<u>\$ 12,339,423</u>
Total Operating Revenue	\$ 10,677,774
Total Operating Expense	<u>8,315,831</u>
Net Operating Income	2,361,943
General Revenue	<u>2,481,801</u>
Change in Net Assets	4,843,744
Beginning Net Assets	<u>7,495,679</u>
Ending Assets	<u>\$ 12,339,423</u>

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**  
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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, 2010:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2008	\$ 432,771	\$ 441,200	\$ 873,971
Claims incurred	375,818	277,694	653,512
Inc./(Dec.) in estimated liability for prior claims	7,795	109,047	116,842
Claims paid	<u>(298,518)</u>	<u>(705,401)</u>	<u>(1,003,919)</u>
Claims payable balance - June 30, 2009	<u>517,866</u>	<u>122,540</u>	<u>640,406</u>
Claims incurred	1,880,461	229,875	2,110,336
Inc./(Dec.) in estimated liability for prior claims	-	(2,219)	(2,219)
Claims paid	<u>(1,966,448)</u>	<u>(290,036)</u>	<u>(2,256,484)</u>
Claims payable balance - June 30, 2010	<u>\$ 431,879</u>	<u>\$ 60,160</u>	<u>\$ 492,039</u>

**13. SERAF**

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency paid approximately \$2.2 million to SERAF due in May 2010 from the Certificates of Participation Fund. The Agency's share of this revenue shift for the year ended June 30, 2011 is approximately \$457,000.

**14. COMMITMENTS AND CONTINGENCIES**

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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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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.

As of June 30, 2010, the Town has uncompleted construction contracts. The remaining commitment on the construction contracts was approximately \$1,490,730.

***Supplementary Information***

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**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**  
**MAJOR GOVERNMENTAL FUND SCHEDULES**  
**(OTHER THAN THE GENERAL FUND)**

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*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.

**Certificates of Participation Fund** is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

**Redevelopment Agency Affordable Housing Fund** is used for the implementation of the Agency's required Affordable Housing Set-Aside Program obligations

**TOWN OF LOS GATOS  
 APPROPRIATED RESERVES FUND  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (GAAP)  
 FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Other taxes	\$ 80,000	\$ 80,000	\$ 80,279	\$ 279
Intergovernmental	2,740,730	2,668,872	2,654,421	(14,451)
Charges for services	177,000	232,620	227,752	(4,868)
Other	-	-	22,000	22,000
<b>Total Revenues</b>	<b>2,997,730</b>	<b>2,981,492</b>	<b>2,984,452</b>	<b>2,960</b>
<b>EXPENDITURES</b>				
Community development	-	40,000	40,000	-
Sanitation and other	-	-	309,158	309,158
Capital outlay	26,188,480	6,758,937	6,502,803	(256,134)
<b>Total Expenditures</b>	<b>26,188,480</b>	<b>6,798,937</b>	<b>6,851,961</b>	<b>53,024</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(23,190,750)</b>	<b>(3,817,445)</b>	<b>(3,867,509)</b>	<b>55,984</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issuance	14,000,000	14,000,000	15,675,000	1,675,000
Operating transfers in	959,480	851,836	834,636	(17,200)
Operating transfers (out)	(171,000)	(179,990)	(144,396)	35,594
<b>Total Other Financing Sources (Uses)</b>	<b>14,788,480</b>	<b>14,671,846</b>	<b>16,365,240</b>	<b>1,693,394</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (8,402,270)</b>	<b>\$ 10,854,401</b>	<b>12,497,731</b>	<b>\$ 1,749,378</b>
<b>BEGINNING FUND BALANCE</b>			<b>11,203,521</b>	
<b>ENDING FUND BALANCE</b>			<b>\$ 23,701,252</b>	

**TOWN OF LOS GATOS  
 CERTIFICATES OF PARTICIPATION FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (GAAP)  
 FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 8,132,460	\$ 8,132,460	\$ 9,768,775	\$ 1,636,315
Less ERAF payment	(745,910)	(745,910)	(745,912)	(2)
Interest	3,400	188,400	163,530	(24,870)
Other	925,970	925,970	931,371	5,401
<b>Total Revenues</b>	<b>8,315,920</b>	<b>8,500,920</b>	<b>10,117,764</b>	<b>1,616,844</b>
<b>EXPENDITURES</b>				
Redevelopment	3,714,360	3,714,360	7,221,725	(3,507,365)
Debt Service:				
Principal	465,000	465,000	465,000	-
Interest & fees	614,970	614,970	620,356	(5,386)
<b>Total Expenditures</b>	<b>4,794,330</b>	<b>4,794,330</b>	<b>8,307,081</b>	<b>(3,512,751)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,521,590</b>	<b>3,706,590</b>	<b>1,810,683</b>	<b>(1,895,907)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	-	-	-
Operating transfers (out)	(70,460)	(70,460)	(2,379,573)	(2,309,113)
<b>Total Other Financing Sources (Uses)</b>	<b>(70,460)</b>	<b>(70,460)</b>	<b>(2,379,573)</b>	<b>(2,309,113)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ 3,451,130</b>	<b>\$ 3,636,130</b>	<b>(568,890)</b>	<b>\$ (4,205,020)</b>
<b>BEGINNING FUND BALANCE</b>			<u>7,988,112</u>	
<b>ENDING FUND BALANCE</b>			<u>\$ 7,419,222</u>	

**TOWN OF LOS GATOS  
REDEVELOPMENT AGENCY HOUSING SET ASIDE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (GAAP)  
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Interest	\$ 200,000	\$ 200,000	\$ 50,648	\$ (149,352)
Other	-	-	16,044	16,044
<b>Total Revenues</b>	<b>200,000</b>	<b>200,000</b>	<b>66,692</b>	<b>(133,308)</b>
<b>EXPENDITURES</b>				
Redevelopment	383,354	770,354	827,563	(57,209)
Capital outlay	-	4,621,874	4,534,771	87,103
<b>Total Expenditures</b>	<b>383,354</b>	<b>5,392,228</b>	<b>5,362,334</b>	<b>29,894</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(183,354)</b>	<b>(5,192,228)</b>	<b>(5,295,642)</b>	<b>(103,414)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	1,571,430	1,571,430	1,804,573	(233,143)
Operating transfers (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>1,571,430</b>	<b>1,571,430</b>	<b>1,804,573</b>	<b>(233,143)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ 1,388,076</b>	<b>\$ (3,620,798)</b>	<b>(3,491,069)</b>	<b>\$ (336,557)</b>
<b>BEGINNING FUND BALANCE</b>			<b>8,631,125</b>	
<b>ENDING FUND BALANCE</b>			<b>\$ 5,140,056</b>	

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NONMAJOR GOVERNMENTAL FUNDS**

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***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.

**Redevelopment Agency Capital Projects Fund** is used to account for redevelopment projects and related property tax revenue.

***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  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2010**

<b>CAPITAL PROJECTS FUNDS</b>					
	<b>Storm Drains Funds</b>	<b>Construction Tax Fund</b>	<b>Gas Tax Fund</b>	<b>Redevelopment Agency Capital Projects</b>	<b>Total Capital Projects Funds</b>
<b>ASSETS</b>					
Cash & Investments	\$ 722,709	\$ 2,508,102	\$ 359,469	\$ 595,048	\$ 4,185,328
Restricted cash & investments	-	-	-	832,492	832,492
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental Receivable	-	-	-	-	-
Long Term Notes Receivable	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 722,709</b>	<b>\$ 2,508,102</b>	<b>\$ 359,469</b>	<b>\$ 1,427,540</b>	<b>\$ 5,017,820</b>
<b>LIABILITIES</b>					
Accounts Payable	-	185,087	-	12,475	197,562
Accrued payroll and benefits	-	-	-	6,052	6,052
Deferred revenue	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>185,087</b>	<b>-</b>	<b>18,527</b>	<b>203,614</b>
<b>FUND BALANCE</b>					
Reserved for:					
Repair and Maintenance	-	-	-	-	-
Long Term Notes Receivable	-	-	-	-	-
Capital Projects	722,709	2,323,015	359,469	1,409,013	4,814,206
Unreserved, designated for:					
Unallocated Fund Balance	-	-	-	-	-
<b>Total Fund Balances</b>	<b>722,709</b>	<b>2,323,015</b>	<b>359,469</b>	<b>1,409,013</b>	<b>4,814,206</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 722,709</b>	<b>\$ 2,508,102</b>	<b>\$ 359,469</b>	<b>\$ 1,427,540</b>	<b>\$ 5,017,820</b>

(Continued)

**TOWN OF LOS GATOS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2010**

	<b>SPECIAL REVENUE FUNDS</b>				
	<b>Community Development Fund</b>	<b>Non-Point Source Maintenance</b>	<b>Lighting and Landscaping</b>	<b>Total Special Revenue Funds</b>	<b>Total Non Major Governmental Funds</b>
<b>ASSETS</b>					
Cash & Investments	\$ -	\$ 44,427	\$ 106,143	\$ 150,570	\$ 4,335,898
Restricted cash & investments	183,375	-	-	183,375	1,015,867
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental Receivable	140,342	-	2,221	142,563	142,563
Long Term Notes Receivable	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 323,717</b>	<b>\$ 44,427</b>	<b>\$ 108,364</b>	<b>\$ 476,508</b>	<b>\$ 5,494,328</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 8,400	\$ 1,622	\$ 2,732	\$ 12,754	\$ 210,316
Accrued payroll and benefits	146	2,601	-	2,747	8,799
Deferred revenue	129,866	-	-	129,866	129,866
<b>Total Liabilities</b>	<b>138,412</b>	<b>4,223</b>	<b>2,732</b>	<b>145,367</b>	<b>348,981</b>
<b>FUND BALANCE</b>					
Reserved for:					
Repair and Maintenance	-	-	105,632	105,632	105,632
Long Term Notes Receivable	-	-	-	-	-
Capital Projects	-	-	-	-	4,814,206
Unreserved, designated for:					
Unallocated Fund Balance	185,305	40,204	-	225,509	225,509
<b>Total Fund Balances</b>	<b>185,305</b>	<b>40,204</b>	<b>105,632</b>	<b>331,141</b>	<b>5,145,347</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 323,717</b>	<b>\$ 44,427</b>	<b>\$ 108,364</b>	<b>\$ 476,508</b>	<b>\$ 5,494,328</b>

(Concluded)

**TOWN OF LOS GATOS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>CAPITAL PROJECTS FUNDS</b>					
	<b>Storm Drains Basin 1</b>	<b>Storm Drains Basin 2</b>	<b>Storm Drains Basin 3</b>	<b>Construction Tax</b>	<b>Gas Tax</b>	<b>Redevelopment Agency Capital Projects</b>
<b>REVENUES</b>						
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	36,062	50,415	3,525	19,585	-	-
Intergovernmental	-	-	-	-	499,702	-
Charges for Services	-	-	-	-	-	-
Interest	3,900	10,870	(860)	49,181	5,340	5,951
Other	-	-	-	-	-	-
<b>Total Revenues</b>	<b>39,962</b>	<b>61,285</b>	<b>2,665</b>	<b>68,766</b>	<b>505,042</b>	<b>5,951</b>
<b>EXPENDITURES</b>						
Current:						
Parks and Public Works	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Sanitation and Other	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	642,927
Capital Outlay:	45,890	-	17,180	208,348	722,753	594,635
Debt Service:						
Interest & Fees	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>45,890</b>	<b>-</b>	<b>17,180</b>	<b>208,348</b>	<b>722,753</b>	<b>1,237,562</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(5,928)</b>	<b>61,285</b>	<b>(14,515)</b>	<b>(139,582)</b>	<b>(217,711)</b>	<b>(1,231,611)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	575,000
Transfers (out)	-	-	-	-	(106,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(106,000)</b>	<b>575,000</b>
<b>Changes in Fund Balances</b>	<b>(5,928)</b>	<b>61,285</b>	<b>(14,515)</b>	<b>(139,582)</b>	<b>(323,711)</b>	<b>(656,611)</b>
<b>Fund Balances at Beginning of year</b>	<b>207,256</b>	<b>510,697</b>	<b>(36,086)</b>	<b>2,462,597</b>	<b>683,180</b>	<b>2,065,624</b>
<b>Fund Balances at End of year</b>	<b>\$ 201,328</b>	<b>\$ 571,982</b>	<b>\$ (50,601)</b>	<b>\$ 2,323,015</b>	<b>\$ 359,469</b>	<b>\$ 1,409,013</b>

(Continued)

**TOWN OF LOS GATOS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>SPECIAL REVENUE FUNDS</b>			
	<b>Community Development Fund</b>	<b>Non-Point Source Maintenance</b>	<b>Lighting and Landscaping</b>	<b>Total</b>
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ 33,510	\$ 33,510
Other Taxes	-	-	-	109,587
Intergovernmental	49,946	-	-	549,648
Charges for Services	-	135,000	-	135,000
Interest	13,191	-	1,940	89,513
Other	-	-	259	259
<b>Total Revenues</b>	<b>63,137</b>	<b>135,000</b>	<b>35,709</b>	<b>917,517</b>
<b>EXPENDITURES</b>				
Current:				
Parks and Public Works	-	-	28,772	28,772
Community Services	553,485	-	-	553,485
Sanitation and Other Redevelopment	-	114,977	-	114,977
Capital Outlay:	-	-	-	642,927
Debt Service:				1,588,806
Interest & Fees	-	-	-	-
<b>Total Expenditures</b>	<b>553,485</b>	<b>114,977</b>	<b>28,772</b>	<b>2,928,967</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(490,348)</b>	<b>20,023</b>	<b>6,937</b>	<b>(2,011,450)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	575,000
Transfers (out)	(1,836)	-	(4,920)	(112,756)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,836)</b>	<b>-</b>	<b>(4,920)</b>	<b>462,244</b>
<b>Changes in Fund Balances</b>	<b>(492,184)</b>	<b>20,023</b>	<b>2,017</b>	<b>(1,549,206)</b>
<b>Fund Balances at Beginning of year</b>	<b>677,489</b>	<b>20,181</b>	<b>103,615</b>	<b>6,694,553</b>
<b>Fund Balances at End of year</b>	<b>\$ 185,305</b>	<b>\$ 40,204</b>	<b>\$ 105,632</b>	<b>\$ 5,145,347</b>

(Concluded)

**TOWN OF LOS GATOS  
BUDGETED NONMAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE YEAR ENDED JUNE 30, 2010**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	41,794	49,946	8,152	-	-	-
Charges for services	-	-	-	135,000	135,000	-
Interest	35,000	13,191	(21,809)	-	-	-
Other	-	-	-	-	-	-
<b>Total Revenues</b>	<b>76,794</b>	<b>63,137</b>	<b>(13,657)</b>	<b>135,000</b>	<b>135,000</b>	<b>-</b>
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	-	-	-
Community services	269,958	553,485	(283,527)	-	-	-
Sanitation and other	-	-	-	147,335	114,977	32,358
Redevelopment	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>269,958</b>	<b>553,485</b>	<b>(283,527)</b>	<b>147,335</b>	<b>114,977</b>	<b>32,358</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(193,164)</b>	<b>(490,348)</b>	<b>(297,184)</b>	<b>(12,335)</b>	<b>20,023</b>	<b>32,358</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(1,836)	(1,836)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(1,836)</b>	<b>(1,836)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (195,000)</b>	<b>(492,184)</b>	<b>\$ (297,184)</b>	<b>\$ (12,335)</b>	<b>20,023</b>	<b>\$ 32,358</b>
<b>BEGINNING FUND BALANCE</b>		<b>677,489</b>			<b>20,181</b>	
<b>ENDING FUND BALANCE</b>		<b>\$ 185,305</b>			<b>\$ 40,204</b>	

(Continued)

**TOWN OF LOS GATOS  
BUDGETED NONMAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE YEAR ENDED JUNE 30, 2010**

	LIGHTING AND LANDSCAPING			STORM DRAINS BASIN 1		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ 33,510	\$ 33,510	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	45,000	36,062	(8,938)
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	2,350	1,940	(410)	3,220	3,900	680
Other	-	259	259	-	-	-
<b>Total Revenues</b>	<b>35,860</b>	<b>35,709</b>	<b>(151)</b>	<b>48,220</b>	<b>39,962</b>	<b>(8,258)</b>
<b>EXPENDITURES</b>						
Parks and public works	38,370	28,772	9,598	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	-
Capital outlay	-	-	-	55,000	45,890	9,110
<b>Total Expenditures</b>	<b>38,370</b>	<b>28,772</b>	<b>9,598</b>	<b>55,000</b>	<b>45,890</b>	<b>9,110</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(2,510)</b>	<b>6,937</b>	<b>9,447</b>	<b>(6,780)</b>	<b>(5,928)</b>	<b>852</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(4,920)</b>	<b>(4,920)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (7,430)</b>	<b>2,017</b>	<b>\$ 9,447</b>	<b>\$ (6,780)</b>	<b>(5,928)</b>	<b>\$ 852</b>
<b>BEGINNING FUND BALANCE</b>		<b>103,615</b>			<b>207,256</b>	
<b>ENDING FUND BALANCE</b>		<b>\$ 105,632</b>			<b>\$ 201,328</b>	

(Continued)

**TOWN OF LOS GATOS  
BUDGETED NONMAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE YEAR ENDED JUNE 30, 2010**

	STORM DRAINS BASIN 2			STORM DRAINS BASIN 3		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	45,000	50,415	5,415	5,000	3,525	(1,475)
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	7,630	10,870	3,240	-	(860)	(860)
Other	-	-	-	-	-	-
<b>Total Revenues</b>	<b>52,630</b>	<b>61,285</b>	<b>8,655</b>	<b>5,000</b>	<b>2,665</b>	<b>(2,335)</b>
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	-
Capital outlay	-	-	-	11,000	17,180	(6,180)
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,000</b>	<b>17,180</b>	<b>(6,180)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>52,630</b>	<b>61,285</b>	<b>8,655</b>	<b>(6,000)</b>	<b>(14,515)</b>	<b>(8,515)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ 52,630</b>	<b>61,285</b>	<b>\$ 8,655</b>	<b>\$ (6,000)</b>	<b>(14,515)</b>	<b>\$ (8,515)</b>
<b>BEGINNING FUND BALANCE</b>		<b>510,697</b>			<b>(36,086)</b>	
<b>ENDING FUND BALANCE</b>		<b>\$ 571,982</b>			<b>\$ (50,601)</b>	

(Continued)

**TOWN OF LOS GATOS  
BUDGETED NONMAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE YEAR ENDED JUNE 30, 2010**

	CONSTRUCTION TAX			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	15,000	19,585	4,585	-	-	-
Intergovernmental	-	-	-	581,000	499,702	(81,298)
Charges for services	-	-	-	-	-	-
Interest	37,080	49,181	12,101	14,670	5,340	(9,330)
Other	-	-	-	-	-	-
<b>Total Revenues</b>	<b>52,080</b>	<b>68,766</b>	<b>16,686</b>	<b>595,670</b>	<b>505,042</b>	<b>(90,628)</b>
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	-
Capital outlay	208,347	208,348	(1)	722,753	722,753	-
<b>Total Expenditures</b>	<b>208,347</b>	<b>208,348</b>	<b>(1)</b>	<b>722,753</b>	<b>722,753</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(156,267)</b>	<b>(139,582)</b>	<b>16,685</b>	<b>(127,083)</b>	<b>(217,711)</b>	<b>(90,628)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(106,000)	(106,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(106,000)</b>	<b>(106,000)</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (156,267)</b>	<b>(139,582)</b>	<b>\$ 16,685</b>	<b>\$ (233,083)</b>	<b>(323,711)</b>	<b>\$ (90,628)</b>
<b>BEGINNING FUND BALANCE</b>		<b>2,462,597</b>			<b>683,180</b>	
<b>ENDING FUND BALANCE</b>		<b>\$ 2,323,015</b>			<b>\$ 359,469</b>	

(Continued)

**TOWN OF LOS GATOS  
BUDGETED NONMAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE YEAR ENDED JUNE 30, 2010**

	REDEVELOPMENT AGENCY CAPITAL PROJECT			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ 33,510	\$ 33,510	\$ -
Other taxes	-	-	-	110,000	109,587	(413)
Intergovernmental	-	-	-	622,794	549,648	(73,146)
Charges for services	-	-	-	135,000	135,000	-
Interest	60,000	5,951	(54,049)	159,950	89,513	(70,437)
Other	-	-	-	-	259	259
<b>Total Revenues</b>	<b>60,000</b>	<b>5,951</b>	<b>(54,049)</b>	<b>1,061,254</b>	<b>917,517</b>	<b>(143,737)</b>
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	38,370	28,772	9,598
Community services	-	-	-	269,958	553,485	(283,527)
Sanitation and other	-	-	-	147,335	114,977	32,358
Redevelopment	696,519	642,927	53,592	696,519	642,927	53,592
Capital outlay	594,088	594,635	(547)	1,591,188	1,588,806	2,382
<b>Total Expenditures</b>	<b>1,290,607</b>	<b>1,237,562</b>	<b>53,045</b>	<b>2,743,370</b>	<b>2,928,967</b>	<b>(185,597)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,230,607)</b>	<b>(1,231,611)</b>	<b>(1,004)</b>	<b>(1,682,116)</b>	<b>(2,011,450)</b>	<b>(329,334)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	575,000	575,000	-	575,000	575,000	-
Operating transfers (out)	-	-	-	(112,756)	(112,756)	-
<b>Total Other Financing Sources (Uses)</b>	<b>575,000</b>	<b>575,000</b>	<b>-</b>	<b>462,244</b>	<b>462,244</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (655,607)</b>	<b>(656,611)</b>	<b>\$ (1,004)</b>	<b>\$ (1,219,872)</b>	<b>(1,549,206)</b>	<b>\$ (329,334)</b>
<b>BEGINNING FUND BALANCE</b>		<b>2,065,624</b>			<b>6,694,553</b>	
<b>ENDING FUND BALANCE</b>		<b>\$ 1,409,013</b>			<b>\$ 5,145,347</b>	

(Concluded)

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**PROPRIETARY FUNDS**  
**INTERNAL SERVICE FUNDS**

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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 ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

	EQUIPMENT REPLACEMENT	WORKER'S COMP	SELF INSURANCE	STORES	MANAGEMENT INFORMATION	VEHICLE MAINTENANCE	FACILITIES MAINTENANCE	TOTAL
<b>ASSETS</b>								
Cash & Investments	\$ 3,114,724	\$ 3,126,070	\$ 2,145,233	\$ 251,286	\$ 2,340,318	\$ 409,150	\$ 846,312	\$ 12,233,093
Restricted Cash & Investments	-	36,993	-	-	-	-	-	36,993
Receivables:								
Accounts	-	-	-	-	658	320	-	978
Supplies and Prepaids	-	-	-	6,480	-	18,596	-	25,076
Equipment (Net)	-	-	-	-	-	26,268	35,058	61,326
<b>Total Assets</b>	<b>\$ 3,114,724</b>	<b>\$ 3,163,063</b>	<b>\$ 2,145,233</b>	<b>\$ 257,766</b>	<b>\$ 2,340,976</b>	<b>\$ 454,334</b>	<b>\$ 881,370</b>	<b>\$ 12,357,466</b>
<b>LIABILITIES</b>								
Accounts Payable	17,380	2,835	2,027	1,409	117,397	19,825	55,578	216,451
Accrued Payroll and Benefits	318	2,972	4,413	-	12,926	5,944	5,579	32,152
Due to Other Governments	66	-	-	-	-	36	43	145
Claims Payable	-	431,881	60,158	-	-	-	-	492,039
<b>Total Liabilities</b>	<b>\$ 17,764</b>	<b>\$ 437,688</b>	<b>\$ 66,598</b>	<b>\$ 1,409</b>	<b>\$ 130,323</b>	<b>\$ 25,805</b>	<b>\$ 61,200</b>	<b>\$ 740,787</b>
<b>FUND BALANCE</b>								
Unallocated Fund Balance	3,096,960	2,725,375	2,078,635	256,357	2,210,653	428,529	820,170	11,616,679
<b>Total Fund Balances</b>	<b>\$ 3,096,960</b>	<b>\$ 2,725,375</b>	<b>\$ 2,078,635</b>	<b>\$ 256,357</b>	<b>\$ 2,210,653</b>	<b>\$ 428,529</b>	<b>\$ 820,170</b>	<b>\$ 11,616,679</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,114,724</b>	<b>\$ 3,163,063</b>	<b>\$ 2,145,233</b>	<b>\$ 257,766</b>	<b>\$ 2,340,976</b>	<b>\$ 454,334</b>	<b>\$ 881,370</b>	<b>\$ 12,357,466</b>

**TOWN OF LOS GATOS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	EQUIPMENT REPLACEMENT	WORKER'S COMP	SELF INSURANCE	STORES	MANAGEMENT INFORMATION	VEHICLE MAINTENANCE	FACILITIES MAINTENANCE	TOTAL
<b>OPERATING REVENUES</b>								
Charges for services	\$ 334,560	\$ 644,571	\$ 491,085	\$ 118,463	\$ 1,002,818	\$ 618,402	\$ 911,683	\$ 4,121,582
Interest	-	39	-	-	-	-	-	39
Other	46,125	4,280	-	1,135	(497)	6,100	99,416	156,559
<b>Total Operating Revenues</b>	<b>380,685</b>	<b>648,890</b>	<b>491,085</b>	<b>119,598</b>	<b>1,002,321</b>	<b>624,502</b>	<b>1,011,099</b>	<b>4,278,180</b>
<b>OPERATING EXPENSES</b>								
Salaries and benefits	9,193	92,709	124,737	-	387,804	168,707	220,438	1,003,588
Insurance expenses	-	128,379	182,417	-	-	-	-	310,796
Depreciation expenses	-	-	-	-	-	8,475	4,926	13,401
Services and supplies	1,174	285,707	196,995	126,685	579,581	287,122	674,464	2,151,728
<b>Total Operating Expenses</b>	<b>10,367</b>	<b>506,795</b>	<b>504,149</b>	<b>126,685</b>	<b>967,385</b>	<b>464,304</b>	<b>899,828</b>	<b>3,479,513</b>
<b>Operating Income (loss)</b>	<b>370,318</b>	<b>142,095</b>	<b>(13,064)</b>	<b>(7,087)</b>	<b>34,936</b>	<b>160,198</b>	<b>111,271</b>	<b>798,667</b>
Transfers (in)	8,990	-	-	-	-	-	-	8,990
Transfers (out)	(568,370)	-	-	-	-	-	(7,800)	(576,170)
<b>Net Transfers</b>	<b>(559,380)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,800)</b>	<b>(567,180)</b>
<b>Change in Net Assets</b>	<b>(189,062)</b>	<b>142,095</b>	<b>(13,064)</b>	<b>(7,087)</b>	<b>34,936</b>	<b>160,198</b>	<b>103,471</b>	<b>231,487</b>
<b>BEGINNING NET ASSETS</b>	<b>3,286,022</b>	<b>2,583,280</b>	<b>2,091,699</b>	<b>263,444</b>	<b>2,175,717</b>	<b>268,331</b>	<b>716,699</b>	<b>11,385,192</b>
<b>ENDING NET ASSETS</b>	<b>\$ 3,096,960</b>	<b>\$ 2,725,375</b>	<b>\$ 2,078,635</b>	<b>\$ 256,357</b>	<b>\$ 2,210,653</b>	<b>\$ 428,529</b>	<b>\$ 820,170</b>	<b>\$ 11,616,679</b>

**TOWN OF LOS GATOS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Receipts from customers	\$ 380,685	\$ 648,892	\$ 491,082	\$ 119,598	\$ 1,008,969	\$ 624,183	\$ 1,011,097	\$ 4,284,506
Payments to suppliers	16,272	-	-	(127,024)	(549,075)	(285,076)	(670,908)	(1,615,811)
Payments to employees	(9,186)	(93,080)	(123,759)	-	(387,473)	(169,844)	(223,186)	(1,006,528)
Claims paid	-	(500,488)	(440,753)	-	-	-	-	(941,241)
	<u>387,771</u>	<u>55,324</u>	<u>(73,430)</u>	<u>(7,426)</u>	<u>72,421</u>	<u>169,263</u>	<u>117,003</u>	<u>720,926</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Transfers In	8,990	-	-	-	-	-	-	8,990
Transfers Out	(568,370)	-	-	-	-	-	(7,800)	(576,170)
	<u>(559,380)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,800)</u>	<u>(567,180)</u>
Net cash provided (used) by noncapital financing activities								
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Acquisition of Capital Assets	-	-	-	136	-	-	-	136
	<u>-</u>	<u>-</u>	<u>-</u>	<u>136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136</u>
Net Cash Used by Capital and Related Financing Activities								
<b>Net Increase in Cash and Investments</b>	(171,609)	55,324	(73,430)	(7,290)	72,421	169,263	109,203	153,882
<b>Cash and investments at beginning of period</b>	3,286,333	3,107,739	2,218,663	258,576	2,267,897	239,887	737,109	12,116,204
<b>Cash and investments at end of period</b>	<u>\$ 3,114,724</u>	<u>\$ 3,163,063</u>	<u>\$ 2,145,233</u>	<u>\$ 251,286</u>	<u>\$ 2,340,318</u>	<u>\$ 409,150</u>	<u>\$ 846,312</u>	<u>\$ 12,270,086</u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities:</b>								
Operating Income	370,318	142,095	(13,064)	(7,087)	34,936	160,198	111,271	798,667
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	8,475	4,926	13,401
Change in assets and liabilities:								
Receivables, net	-	-	-	-	6,646	(320)	-	6,326
Other assets	-	-	-	-	-	7,169	-	7,169
Accounts payable and other accrued expenses	17,446	(785)	2,016	(339)	30,839	(6,295)	5,325	48,207
Accrued payroll	7	(85,986)	(62,382)	-	-	36	(4,519)	(152,844)
<b>Cash Flows From Operating Activities</b>	<u>\$ 387,771</u>	<u>\$ 55,324</u>	<u>\$ (73,430)</u>	<u>\$ (7,426)</u>	<u>\$ 72,421</u>	<u>\$ 169,263</u>	<u>\$ 117,003</u>	<u>\$ 720,926</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**AGENCY FUND**  
**PARKNG IMPROVEMENT DISTRICT #88**

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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 YEAR ENDED JUNE 30, 2010**

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
<b>ASSETS</b>				
Cash and Investments (Note 3)	\$ 52,951	\$ 139,685	\$ 145,884	\$ 46,752
Restricted cash and investments (Note 3)	275,110	4,496	-	279,606
Intergovernmental receivable	460,424	-	101,511	358,913
 Total Assets	 \$ 788,485	 \$ 144,181	 \$ 247,395	 \$ 685,271
<b>LIABILITIES</b>				
Due to other governments	\$ 788,485	\$ 144,181	\$ 247,395	\$ 685,271
 Total Liabilities	 \$ 788,485	 \$ 144,181	 \$ 247,395	 \$ 685,271

***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).

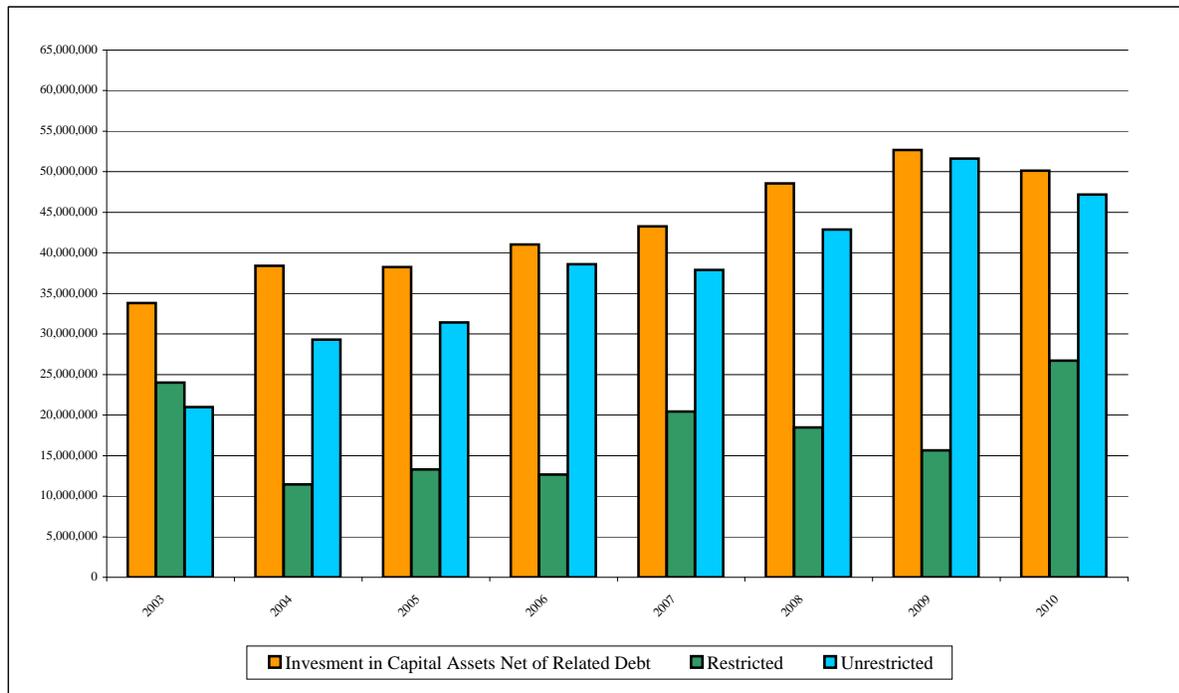
### **Operating Information**

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).

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Town of Los Gatos  
 Net Assets by Component  
 Last Eight Fiscal Years  
 (Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Investment in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2003	33,799,130	24,016,830	20,984,676	78,800,636
2004	38,417,211	11,463,187 (1)	29,308,135	79,188,533
2005	38,234,229	13,295,871	31,410,468	82,940,568
2006	41,019,121	12,665,493	38,609,085	92,293,699
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	50,129,552	26,723,994	47,191,225	124,044,771

\* This data has only been available since implementation of GASB34 in FY2003.

(1) The decrease in Restricted Net Assets from FY2003 to FY2004 was primarily due to the issuance of the \$10.7 million Certificates of Participation in FY2003.

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Town of Los Gatos  
 Changes in Net Assets  
 Last Eight Fiscal Years  
 (Accrual Basis of Accounting)

Expenses	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Governmental Activities:</b>								
General government	\$ 4,140,359	\$ 4,246,133	\$ 4,341,526	\$ 4,383,584	\$ 4,570,391	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801
Police department	10,337,213	9,980,927	10,524,840	11,133,362	11,556,350	12,313,637	13,467,503	13,266,849
Parks and public works	6,410,103	6,179,328	5,953,319	6,523,888	7,222,052	6,958,449	8,671,678	7,458,085
Community development	2,277,109	2,229,686	2,494,689	2,887,818	2,735,223	3,064,865	3,389,151	3,522,477
Community services	973,554	1,046,351	920,562	948,650	2,388,250	1,060,922	1,162,284	966,055
Library services	1,779,697	1,807,662	1,786,696	1,880,465	1,892,448	1,956,767	2,067,476	2,038,009
Sanitation	833,096	832,538	834,525	574,344	414,610	502,196	407,048	655,713
Redevelopment	1,563,166	1,828,924	2,133,008	2,093,546	2,434,935	3,360,550	2,939,550	6,636,270
Interest and fees	1,139,358	662,867	696,266	708,585	704,794	670,415	631,159	612,700
Total Governmental Activities	\$ 29,453,655	\$ 28,814,415	\$ 29,685,430	\$ 31,134,241	\$ 33,919,053	\$ 35,121,567	\$ 38,059,316	\$ 39,803,959
<b>Program Revenues</b>								
<b>Charges for Services:</b>								
General government	\$ 2,159,167	\$ 1,959,401	\$ 1,640,632	\$ 1,981,557	\$ 2,127,670	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772
Police department	1,403,332	1,446,067	1,386,479	1,343,028	1,250,636	895,569	1,358,361	2,110,357
Parks and public works	351,605	472,366	757,790	591,079	676,095	576,107	637,933	779,300
Community development	1,815,495	2,025,305	2,569,923	3,070,115	2,997,419	2,954,123	2,700,614	3,423,467
Community services	152,697	347,970	182,075				147,895	153,746
Library services	57,913	72,013	61,671	62,444	61,091	60,123	56,932	57,633
Sanitation	871,698	903,097	889,948	690,314	437,794	166,660	135,000	135,000
Redevelopment								19,380
<b>Operating Grants and Contributions:</b>								
General government	-	-	-	-	-	54,242	8,834	10,237
Police department	590,489	546,508	566,180	745,797	645,034	744,347	538,629	81,997
Parks and public works	616,962	706,621	556,121	549,873	545,432	565,857	633,923	594,775
Community services	285,812	124,920	262,554	180,897	68,912	146,236	190,447	124,287
Library services	26,070	12,981	14,987	11,379	16,735	11,409	10,462	13,996
Sanitation		8,155	8,023	7,857		41,044	39,891	25,103
Redevelopment	143,043							
<b>Capital Grants and Contributions:</b>								
Parks and public works	881,758	1,166,929	867,951	931,616	1,381,631	2,020,121	1,330,638	3,074,453
Total Program Revenues	\$ 9,356,041	\$ 9,792,333	\$ 9,764,334	\$ 10,165,957	\$ 10,208,449	\$ 9,385,751	\$ 8,944,968	\$ 11,941,503

Town of Los Gatos  
 Changes in Net Assets  
 Last Eight Fiscal Years  
 (Accrual Basis of Accounting)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>General Revenues</b>								
Property taxes	\$ 9,051,608	\$ 9,645,339	\$ 11,931,215	\$ 13,810,457	\$ 16,082,348	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081
Sales taxes	6,928,817	6,914,526	7,904,130	8,655,566	9,253,891	9,345,432	8,487,000	8,317,217
Other taxes	1,835,328	1,823,019	1,864,997	2,247,997	2,327,516	2,904,908	2,664,698	2,623,622
Motor vehicle in lieu	1,722,801	1,298,455	314,041	666,494	194,104	137,330	101,265	92,595
Interest	1,642,527	(92,621)	1,286,433	1,922,819	3,607,966	4,190,951	2,949,119	1,155,929
Investment earnings	262,568	-	(6,378)	(3,592)				
Proceeds from sale of property	-	-						
Proceeds from sale of property	-	-						
Loss on disposal of capital assets	-	-						
Sale of property	22,356	25,415	378,693	2,850,836	334,818	9,842	6,525,000	52,459
Miscellaneous	\$ 21,466,005	\$ 19,614,133	\$ 23,673,131	\$ 30,150,578	\$ 31,800,643	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903
<b>Total General Revenues</b>	\$ 21,466,005	\$ 19,614,133	\$ 23,673,131	\$ 30,150,578	\$ 31,800,643	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903
<b>Change in Net Assets</b>	\$ 1,368,391	\$ 592,051	\$ 3,752,035	\$ 9,182,294	\$ 8,090,039	\$ 8,163,698	\$ 10,022,597	\$ 3,235,447

\* 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.

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

	Fiscal Year									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
General Fund										
Reserved	\$ 2,840,544	\$ 2,894,473	\$ 2,894,473	\$ 1,852,516	\$ 2,097,545	\$ 2,128,873	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589
Unreserved	10,768,424	7,751,411	9,701,339	10,544,144	12,144,819	18,000,209	16,406,211	17,236,569	16,861,752	18,594,984
Total general fund	<u>\$ 13,608,968</u>	<u>\$ 10,645,884</u>	<u>\$ 12,595,812</u>	<u>\$ 12,396,660</u>	<u>\$ 14,242,364</u>	<u>\$ 20,129,082</u>	<u>\$ 21,138,605</u>	<u>\$ 19,284,830</u>	<u>\$ 25,027,359</u>	<u>\$ 23,086,573</u>
All Other Governmental Funds										
Reserved	\$ 5,938,317	\$ 6,841,638	\$ 14,605,959	\$ 11,189,030	\$ 12,844,667	\$ 12,088,367	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384
Unreserved, reported in:										
Special revenue funds	1,026,102	1,055,587	1,067,615	845,014	962,032	1,123,335	836,191	1,030,161	522,105	225,509
Capital project funds	13,503,941	8,871,368	5,294,418	4,078,709	3,853,747	3,842,580	8,169,857	11,719,905	11,203,521	24,454,347
Debt service funds	(260,037)	1,454,569	2,575,400	3,704,844	4,032,770	4,960,030	3,849,382	5,747,185	7,526,557	6,953,732
Total all other governmental funds	<u>\$ 20,208,323</u>	<u>\$ 18,223,162</u>	<u>\$ 23,543,392</u>	<u>\$ 19,817,597</u>	<u>\$ 21,693,216</u>	<u>\$ 22,014,312</u>	<u>\$ 28,675,775</u>	<u>\$ 33,414,880</u>	<u>\$ 34,517,310</u>	<u>\$ 42,158,972</u>

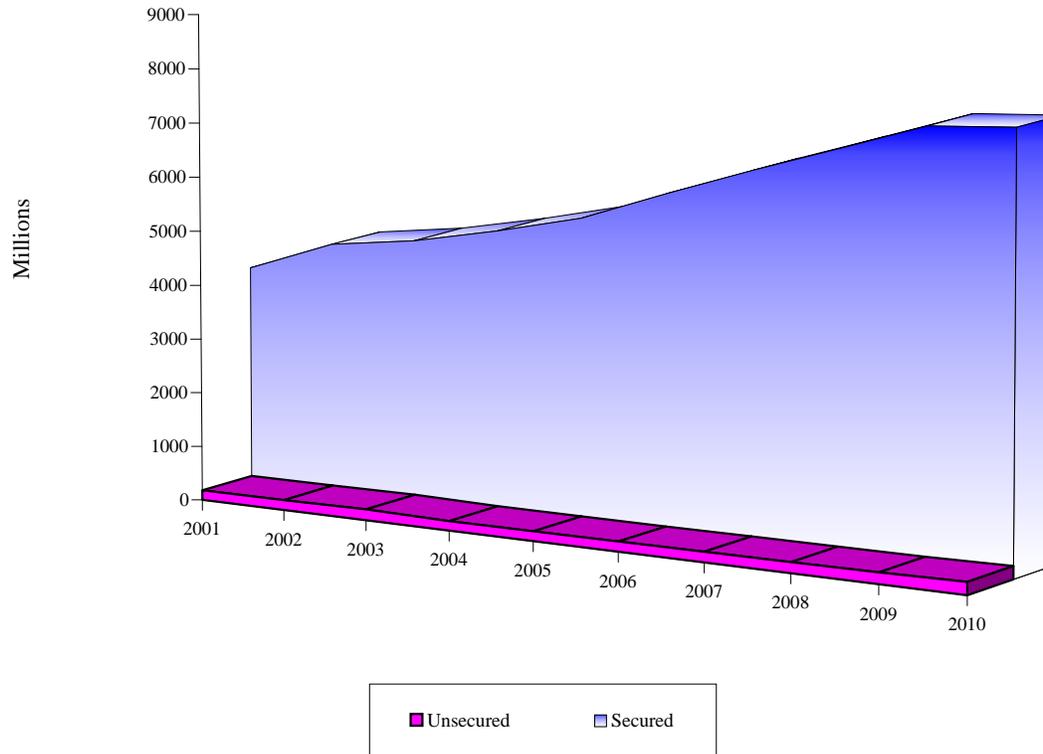
Town of Los Gatos  
 Changes in Fund Balances, Governmental Funds  
 Last Ten Fiscal Years  
 (Modified Accrual Basis of Accounting)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Revenues:</b>										
Taxes	19,572,989	17,855,424	17,788,711	18,541,280	22,099,118	25,112,221	27,888,072	29,773,634	29,643,262	29,967,385
Intergovernmental	4,335,749	4,323,605	4,515,854	4,719,901	4,242,451	3,993,032	4,085,983	3,128,239	2,134,352	4,082,725
Charges for Service	2,803,893	2,686,386	3,383,422	3,236,450	3,062,960	3,529,178	4,269,571	2,996,660	3,421,131	4,418,074
Licenses & Permits	1,801,443	1,686,610	1,937,094	2,031,387	2,417,204	2,705,028	3,337,822	2,692,187	2,692,187	2,977,199
Investment income	3,519,977	3,002,383	2,547,576	465,432	1,828,216	4,975,513	4,179,736	4,190,955	2,949,120	1,174,203
Fines and Forfeitures	608,183	532,680	187,117	751,532	580,937	1,005,773	561,665	369,292	618,771	662,699
Use of Property	691,500	409,403	282,660	267,052	1,597	232,694	110,486	1,180,063	60,749	51,948
Other	33,333,734	30,494,491	30,642,434	30,013,034	34,232,483	41,486,388	43,800,541	44,976,665	43,100,649	45,439,565
<b>Total revenues</b>										
<b>Expenditures:</b>										
Current	9,175,312	9,775,147	10,211,315	9,986,069	10,506,167	11,706,091	11,576,850	12,214,891	12,971,105	12,821,499
Public safety	4,693,676	4,435,711	4,903,638	4,625,525	4,399,171	4,742,401	4,956,451	5,261,706	5,785,584	5,152,745
Public Works	2,079,359	2,287,237	2,269,870	2,249,641	2,527,730	2,936,730	2,776,231	3,035,240	3,280,856	3,452,914
Community Development	741,781	912,997	1,004,142	1,265,296	933,759	950,333	2,395,429	1,056,835	1,149,290	1,261,981
Library Services	1,822,050	1,685,099	1,811,866	1,798,331	1,770,991	1,876,022	1,904,900	1,946,595	2,007,518	1,999,430
Sanitation & Other	613,715	647,829	819,658	846,809	848,547	551,164	387,674	470,660	375,483	642,512
General Government	3,204,695	3,557,111	4,048,876	4,234,148	4,372,991	4,358,853	4,586,513	5,120,970	5,145,355	5,483,753
Redevelopment	550,657	646,470	1,459,013	1,773,889	2,084,767	2,573,514	2,966,132	3,284,847	3,861,525	8,692,216
Capital outlay	2,200,264	10,955,593	9,077,120	6,911,405	2,142,212	4,682,848	4,689,187	8,697,478	7,759,577	16,141,561
Debt service	135,000	144,560	150,000	370,000	385,000	400,000	414,167	429,167	445,000	465,000
Principal repayment	594,500	557,010	904,565	668,721	698,906	714,079	711,346	676,913	638,221	620,336
Interest and fiscal changes										
<b>Total expenditures</b>	25,811,009	35,604,764	36,660,063	34,729,834	30,670,241	35,692,035	37,364,880	42,195,302	43,419,514	56,733,966
<b>Excess (deficiency) of revenues over (under) expenditures</b>	7,522,725	(5,110,273)	(6,017,629)	(4,716,800)	3,562,242	5,994,353	6,435,661	2,781,363	(318,865)	(11,294,401)
<b>Other financing sources(uses):</b>										
Debt issuance	-	-	-	-	-	-	-	-	-	16,428,095
Transfers in	9,405,655	3,740,134	3,256,337	2,352,051	2,130,315	2,854,245	10,611,169	8,810,379	5,370,708	4,028,905
Transfers out	(8,045,655)	(3,724,134)	(2,456,337)	(1,702,052)	(2,130,315)	(2,640,785)	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)
Proceeds from issuance of debt	-	0	10,725,000	-	-	-	-	-	-	-
<b>Total other financing sources(uses)</b>	1,360,000	16,000	11,525,000	649,999	-	213,460	1,235,322	103,970	638,823	16,995,276
<b>Special item:</b>										
Sale of property	-	-	-	-	-	-	-	-	6,525,000	-
<b>Net change in fund balances</b>	8,882,725	(5,094,273)	5,507,371	(4,066,801)	3,562,242	6,207,813	7,670,983	2,885,333	6,844,958	5,700,875
<b>Debt service as a percentage of non capital expenditures</b>	2.91%	2.01%	2.96%	3.77%	3.86%	3.72%	3.49%	3.26%	3.05%	2.22%

1 Increase due to SERAF payment to State in the amount of \$2.2M and increased Pass Through Payments.  
 2 The amount shown as capital outlay does not reconcile to the reconciling item on the Statement of Activity due to capital outlay expenditures which fall below the capitalization threshold.  
 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



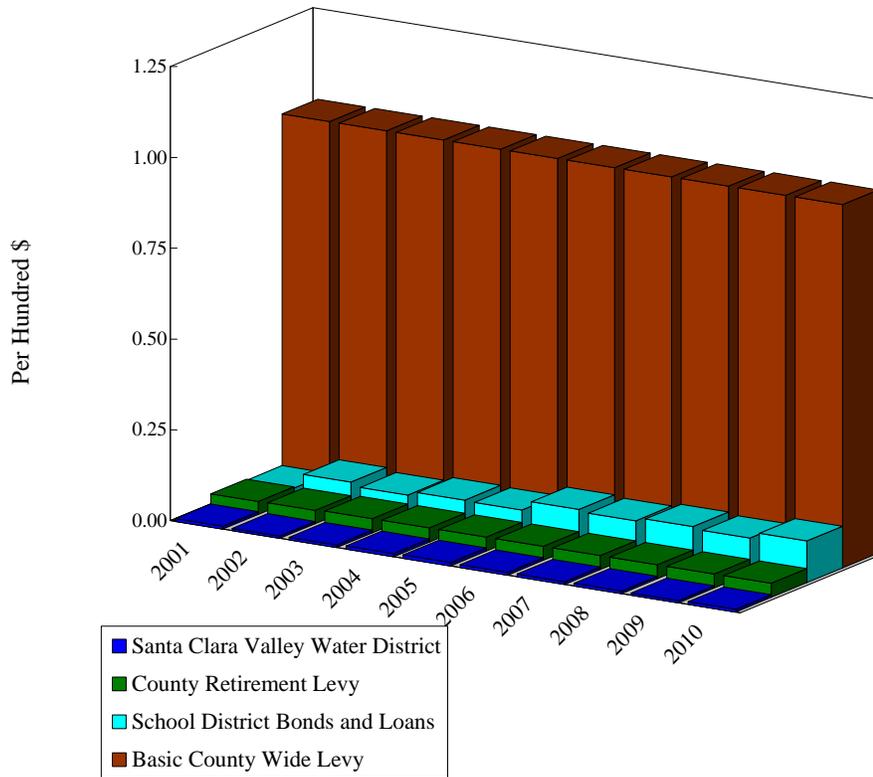
Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2001	177,486,954	23.83%	4,084,688,126	10.68%	4,262,175,080	16,338,752,504	1.0356
2002	185,521,158	4.53%	4,685,070,118	14.70%	4,870,591,276	18,740,280,472	1.0364
2003	201,539,300	8.63%	4,913,724,163	4.88%	5,115,263,463	19,654,896,652	1.0388
2004	175,689,995	-12.83%	5,258,601,739	7.02%	5,434,291,734	21,034,406,956	1.0388
2005	179,611,684	2.23%	5,654,906,203	7.54%	5,834,517,887	22,619,624,812	1.0388
2006	186,694,066	3.94%	6,259,830,939	10.70%	6,446,525,005	25,039,323,756	1.0388
2007	194,195,209	4.02%	6,840,335,733	9.27%	7,034,530,942	27,361,342,932	1.0388
2008	201,629,315	3.83%	7,392,958,751	8.08%	7,594,588,066	29,571,835,004	1.0388
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0388
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0388

Source: Santa Clara County Assessed Value Report

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

Schedule 6



Fiscal Year	Basic County Wide Levy	School District Bonds and Loans	County Retirement Levy	Santa Clara Valley Water District	Total
2001	1.0000	0.0320	0.0356	0.0075	1.0751
2002	1.0000	0.0734	0.0364	0.0062	1.1160
2003	1.0000	0.0635	0.0388	0.0072	1.1095
2004	1.0000	0.0749	0.0388	0.0087	1.1224
2005	1.0000	0.0726	0.0388	0.0092	1.1206
2006	1.0000	0.0996	0.0388	0.0078	1.1462
2007	1.0000	0.0941	0.0388	0.0072	1.1401
2008	1.0000	0.1032	0.0388	0.0071	1.1491
2009	1.0000	0.0970	0.0388	0.0061	1.1419
2010	1.0000	0.1147	0.0388	0.0074	1.1609

Source: Santa Clara County Book of Tax Rates

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Town of Los Gatos  
Principle Property Tax Payers  
Last Five Fiscal Years \*

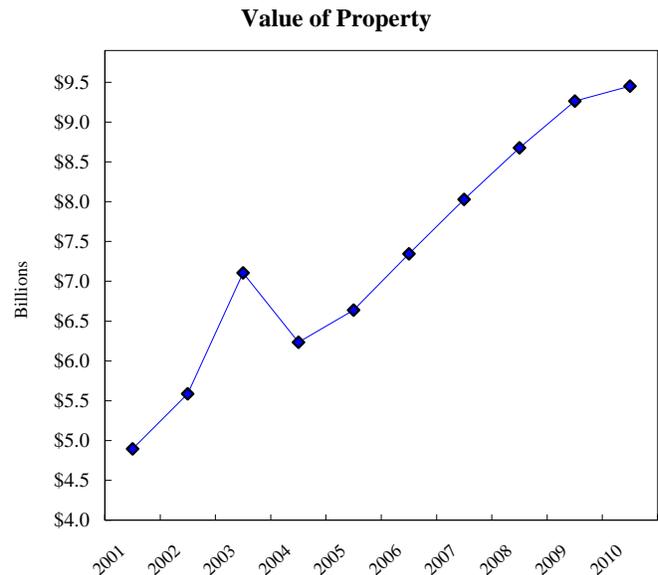
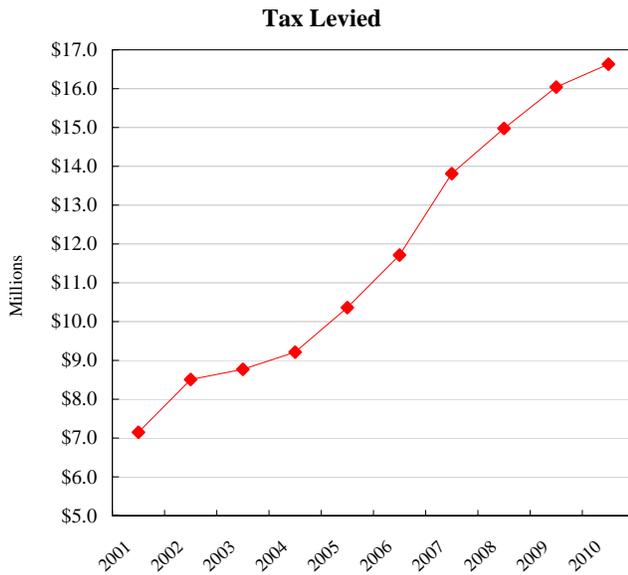
ASSEESSE NAME	2005/06			2006/07			2007/08			2008/09			2009/10		
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value		Taxable Assessed Value	Percentage of Total City Taxable Assessed Value		Taxable Assessed Value	Percentage of Total City Taxable Assessed Value		Taxable Assessed Value	Percentage of Total City Taxable Assessed Value		Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	
Sobrato Interests IV/Sobrato Land Holdings	\$38,914,371	0.62%		\$65,972,484	0.96%		\$93,581,215	1.27%		\$147,774,933	1.86%		\$156,934,561	1.94%	
Boccardo Corporation	\$18,463,398	0.29%		\$19,614,794	0.27%		\$20,044,530	0.27%		\$20,519,274	0.26%		\$37,747,020	0.47%	
Knowles Los Gatos LLC	\$18,000,000	0.29%		\$19,500,000	0.29%		\$22,000,000	0.30%		\$35,000,000	0.44%		\$32,000,000	0.40%	
SRI Old Town LLC	\$27,370,191	0.44%		\$27,917,594	0.41%		\$28,475,945	0.39%		\$29,045,463	0.37%		\$29,626,371	0.37%	
CH Realty IV Downing LP	\$0	0.00%		\$0	0.00%		\$0	0.00%		\$28,815,000	0.36%		\$29,391,300	0.37%	
Hercules Holding II LLC	\$0	0.00%		\$0	0.00%		\$0	0.00%		\$18,417,111	0.23%		\$25,886,805	0.33%	
Health Care REIT Inc,	\$0	0.00%		\$0	0.00%		\$0	0.00%		\$24,480,000	0.31%		\$24,969,600	0.31%	
750 University LLC	\$11,550,000	0.18%		\$15,500,000	0.23%		\$19,000,000	0.26%		\$22,000,000	0.28%		\$21,000,000	0.26%	
Grosvonor USA Ltd.	\$0	0.00%		\$0	0.00%		\$20,145,000	0.27%		\$20,547,900	0.26%		\$20,958,858	0.26%	
Alberto Way Holdings LLC	\$0	0.00%		\$0	0.00%		\$20,516,687	0.27%		\$20,516,687	0.26%		\$20,927,018	0.26%	
D&K Los Gatos LLC	\$0	0.00%		\$0	0.00%		\$0	0.00%		\$14,041,573	0.18%		\$20,400,000	0.26%	
San Jose Water Works	\$0	0.00%		\$0	0.00%		\$19,380,000	0.26%		\$19,767,599	0.25%		\$20,162,950	0.25%	
CHL Ventures LP	\$16,778,527	0.27%		\$17,303,341	0.25%		\$17,828,902	0.24%		\$19,934,491	0.25%		\$20,628,848	0.25%	
Toll House Hotel LLC	\$13,063,037	0.21%		\$13,943,390	0.20%		\$17,991,946	0.24%		\$16,127,937	0.20%		\$18,986,145	0.24%	
Grade Way Apartments VI	\$0	0.00%		\$0	0.00%		\$0	0.00%		\$14,151,237	0.18%		\$14,434,261	0.18%	
Lyon Baytree Apartments LLC	\$0	0.00%		\$15,799,076	0.23%		\$16,232,977	0.22%		\$16,722,748	0.21%		\$14,161,525	0.18%	
KSL Capital Partners	\$0	0.00%		\$0	0.00%		\$0	0.00%		\$27,838,903	0.35%		\$14,030,096	0.18%	
Los Gatos Hotel Corp.	\$15,240,230	0.24%		\$15,574,890	0.23%		\$15,919,836	0.22%		\$0	0.00%		\$12,696,924	0.16%	
Paul H. Koskoph	\$11,730,000	0.19%		\$11,964,600	0.17%		\$0	0.00%		\$0	0.00%		\$12,617,140	0.16%	
Elizabeth K. Dodson	\$11,523,006	0.18%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%	
Health Care Property Partners	\$26,238,235	0.42%		\$26,762,998	0.39%		\$27,298,254	0.37%		\$27,844,216	0.35%		\$0	0.00%	
BRJ Partners	\$14,492,144	0.23%		\$12,890,000	0.19%		\$15,718,594	0.21%		\$21,182,595	0.27%		\$0	0.00%	
Community Hospital of Los Gatos Inc.	\$24,916,774	0.40%		\$25,415,105	0.37%		\$0	0.00%		\$17,081,971	0.21%		\$0	0.00%	
Ohana University Ave. LLC	\$11,793,934	0.19%		\$12,029,810	0.18%		\$0	0.00%		\$0	0.00%		\$0	0.00%	
Robert M. Granum II	\$10,975,155	0.18%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%	
GS Baytree LP	\$10,785,261	0.17%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%	
Robson Homes LLC	\$0	0.00%		\$11,500,001	0.17%		\$0	0.00%		\$0	0.00%		\$0	0.00%	
GHC Shannon Valley Ranch LLC	\$0	0.00%		\$13,355,200	0.20%		\$20,087,540	0.27%		\$0	0.00%		\$0	0.00%	
Sports Resorts Inc.	\$28,128,774	0.45%		\$29,845,553	0.44%		\$17,142,678	0.23%		\$0	0.00%		\$0	0.00%	
Good Samaritan Hospital LP	\$15,561,632	0.25%		\$15,213,317	0.22%		\$15,866,548	0.21%		\$0	0.00%		\$0	0.00%	
Windrose Los Gatos Properties LLC	\$0	0.00%		\$13,577,220	0.20%		\$14,626,641	0.20%		\$0	0.00%		\$0	0.00%	
Grade Way Associates VI	\$13,311,000	0.21%		\$13,496,323	0.20%		\$13,873,763	0.19%		\$0	0.00%		\$0	0.00%	
Park Row East Apartments Ltd.	\$13,231,691	0.21%		\$13,496,323	0.20%		\$13,766,249	0.19%		\$0	0.00%		\$0	0.00%	
Total - Principal taxpayers	\$ 352,067,360	5.62%		\$ 397,175,696	5.81%		\$ 449,095,018	6.07%		\$ 561,809,638	7.07%		\$ 560,999,695	6.95%	
Total - All real properties assessed by the Town (1)	\$6,259,830,939			\$6,840,335,733			\$7,392,958,751			\$7,949,991,620			\$8,075,202,207		

\*Data pertaining to principal tax payers prior to 2005/06 is not available.

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

Source Data: California Municipal Statistics, Inc.

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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
2001	3,917,932	3,232,042	7,149,974	4,310,115,280	585,708,196	4,895,823,476
2002	4,425,047	4,079,598	8,504,645	4,918,304,676	667,237,082	5,585,541,758
2003	4,736,560	4,037,443	8,774,003	5,162,418,263	1,941,931,823	7,104,350,086
2004	4,834,464	4,376,896	9,211,361	5,480,295,734	753,210,332	6,233,506,066
2005	5,348,483	5,013,350	10,361,833	5,834,517,887	804,306,862	6,638,824,749
2006	5,739,846	5,976,062	11,715,909	6,446,525,005	897,448,660	7,343,973,665
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

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

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

Schedule 9

Fiscal Year	Governmental Activities			Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation				
2001	2,185,000			2,185,000	2,185,000	*	76.42
2002	1,925,000			1,925,000	1,925,000	*	66.69
2003	1,775,000	10,725,000		12,500,000	12,500,000	*	432.98
2004	1,615,000	10,515,000		12,130,000	12,130,000	*	419.56
2005	1,445,000	10,300,000		11,745,000	11,745,000	*	405.49
2006	1,270,000	10,075,000		11,345,000	11,345,000	*	389.65
2007	1,085,000	9,845,000		10,930,000	10,930,000	*	372.25
2008	890,000	9,610,000		10,500,000	10,500,000	*	348.03
2009	685,000	9,370,000		10,055,000	10,055,000	*	329.70
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	*	820.24

\* Data is being compiled by departments but unavailable at printing

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements

(1) See Schedule 12 for personal income and population data

Town of Los Gatos  
 Direct and Overlapping Governmental Activities Debt  
 As of June 30, 2010

Schedule 10

2009/10 Assessed Valuation: \$8,317,387,662  
 Redevelopment Incremental Valuation \$897,418,958  
 Adjusted Assessed Valuation: \$7,419,968,704

DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable	Debt at June 30, 2010	Estimated Share of Direct and Overlapping Debt at June 30, 2010
Santa Clara County	2.748%	\$ 350,000,000	\$ 9,618,000
Santa Clara Valley Water District, Zone W-1	3.093%	\$ 910,000	\$ 28,146
West Valley-Mission Community College District	10.286%	\$ 215,069,692	\$ 22,122,069
Campbell Union High School District	8.278%	\$ 136,395,000	\$ 11,290,778
Los Gatos-Saratoga Joint Union High School District	29.430%	\$ 58,915,000	\$ 17,338,685
Cambrian School District	0.236%	\$ 19,169,944	\$ 45,241
Campbell Union High School District	8.765%	\$ 98,223,346	\$ 8,609,276
Los Gatos Union School District	65.809%	\$ 85,445,000	\$ 56,230,500
Saratoga Union School District	0.015%	\$ 49,432,159	\$ 7,415
Union School District	20.420%	\$ 75,127,615	\$ 15,341,059
Town of Los Gatos 1915 Act Bonds	100.000%	\$ 490,000	\$ 490,000
Santa Clara Valley Water District Benefit Assessment District	2.748%	\$ 152,440,000	\$ 4,189,051
Santa Clara County General Fund Obligations	2.748%	\$ 825,070,000	\$ 22,672,924
Santa Clara County Pension Obligations	2.748%	\$ 388,044,822	\$ 10,663,472
Santa Clara County Board of Education Certificates of Participation	2.748%	\$ 13,580,000	\$ 373,178
West Valley-Mission Community College District General Fund Obligations	10.286%	\$ 56,120,000	\$ 5,772,503
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	29.430%	\$ 10,205,000	\$ 3,003,332
Saratoga Union School District Certificates of Participation	0.015%	\$ 6,380,000	\$ 957
<b>Town of Los Gatos Certificates of Participation</b>	<b>100.000%</b>	<b>\$ 25,480,000</b>	<b>\$ 25,480,000</b>
Santa Clara County Vector Control District Certificates of Participation	2.748%	\$ 3,965,000	\$ 108,958
Midpeninsula Regional Open Space Park District General Fund Obligations	4.627%	\$ 113,788,031	\$ 5,264,972
<b>TOTAL DIRECT AND OVERLAPPING BONDED DEBT</b>		<b>\$ 2,684,250,609 (1)</b>	<b>\$ 218,650,516</b>

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

Ratios to 2009/10 Assessed Valuation:  
 Total Overlapping Tax and Assessment Debt: 1.75%  
Ratios to Adjusted Assessed Valuation:  
 Combined Direct Debt (\$25,480,000): 0.34%  
 Combined Total Debt: 2.95%

State School Building Aid Repayable as of 6/30/10: \$0.00

Source Data: California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation  
 for Fiscal Year 2010/11

Assessed Value	8,030,339,807
Debt limit	1,204,550,971
Debt applicable to limit:	-
Legal Debt Margin	<u>1,204,550,971</u>

	Fiscal Year									
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Debt limit	606,154	612,703	702,761	788,790	842,159	932,872	1,019,970	1,102,766	1,185,727	1,204,551
Debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>606,154</u>	<u>612,703</u>	<u>702,761</u>	<u>788,790</u>	<u>842,159</u>	<u>932,872</u>	<u>1,019,970</u>	<u>1,102,766</u>	<u>1,185,727</u>	<u>1,204,551</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%
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Note: The Town of Los Gatos is a general law city and has a debt limit of 15%.

Town of Los Gatos  
Demographic and Economic Statistics,  
Last Nine Fiscal Years

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)
2002	28,864	1,564,284	54,195	41.89	5,518	8.5%
2003	28,870	1,432,385	49,615	41.89	5,525	9.1%
2004	28,911	1,338,724	46,305	42.52	5,529	6.7%
2005	28,965	1,342,904	46,363	44.04	5,610	5.5%
2006	29,116	1,430,527	49,132	44.19	5,718	4.7%
2007	29,362	1,500,751	51,112	44.64	5,742	4.8%
2008	30,170	1,681,525	55,735	44.86	5,870	6.0%
2009	30,497	1,833,083	60,107	45.35	6,006	11.9%
2010	30,802	1,303,695	42,325	45.09	6,100	11.1%

Note: Data pertaining to principal employers prior to 2001/02 is not available.

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2010)
- (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](http://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.

Town of Los Gatos  
Principal Employers  
Last Five Fiscal Years

Major Employers	2005/06		2006/07		2007/08		2008/09		2009/10	
	Employees	Percentage of Total Town Employment								
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.36%	2,000	13.09%	2,000	12.89%	2,000	12.31%	2,000	12.17%
El Camino Hospital, Los Gatos	730	4.88%	730	4.78%	730	4.70%	800	4.92%	700	4.26%
Community Hospital of Los Gatos	300	2.00%	300	1.96%	300	1.93%	300	0.00%	300	1.83%
Los Gatos Union School District	300	2.00%	300	1.96%	300	1.93%	300	1.85%	300	1.83%
Los Gatos-Saratoga High School District	280	1.87%	280	1.83%	280	1.80%	280	1.85%	280	1.70%
Netflix	250	1.67%	250	1.64%	250	1.61%	200	1.23%	250	1.52%
Safeway	220	1.47%	220	1.44%	220	1.42%	200	1.23%	220	1.34%
Alain Pinel Realtors	200	1.34%	200	1.31%	200	1.29%	200	1.23%	200	1.22%
Verizon	200	1.34%	200	1.31%	200	1.29%	200	1.23%	200	1.22%
Courtside Tennis Club	152	1.02%	152	0.99%	135	0.87%	189	1.16%	152	0.92%
Town of Los Gatos	130	0.87%	130	0.85%	130	0.84%	150	0.92%	136	0.83%
Los Gatos Meadows										
Monolithic Power Systems Semi-Conductor	136	0.91%	136	0.89%						

Note: Data pertaining to principal employers prior to 2005/06 is not available.

Source: Town of Los Gatos, Finance Department and Claritas Demographic Report

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

Function/Program	Full-time-Equivalent Employees as of June 30								
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
General Government	30.50	23.25	23.10	21.35	19.95	20.75	20.50	19.95	18.35
Police	68.00	73.00	69.00	65.30	62.00	62.00	61.00	61.00	60.00
Culture and recreation	4.25	4.25	4.25	4.25	4.25	4.25	5.25	5.25	5.25
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Library	11.50	11.25	10.75	11.10	10.35	10.35	10.35	10.35	10.35
Planning	21.00	19.00	18.60	19.60	18.80	18.80	18.80	18.80	17.80
Public Works	44.00	44.00	41.00	37.00	37.00	34.00	34.00	37.00	35.00
<b>Total</b>	<b>180.25</b>	<b>175.75</b>	<b>167.70</b>	<b>159.60</b>	<b>153.35</b>	<b>151.15</b>	<b>150.90</b>	<b>153.35</b>	<b>147.75</b>

Note: Data pertaining to principal employers prior to 2001/02 is not available.

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.

Town of Los Gatos  
 Operating Indicators  
 Last Five Fiscal Years

Schedule 15

FUNCTION/PROGRAM	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
<b>General government</b>					
Building Permits Issued	868	878	762	676	733
Residential Permits Issued	126,348,388	80,030,698	69,104,606	48,162,274	51,090,808
Commercial Permits Issued	101	136	127	24	117
Publically Owned Permits Issued	24,203,521	31,916,848	27,232,018	4,356,307	7,908,146
Publically Owned Permits Value				2,308,160	5,732,014
<b>Residential Parking Permits</b>					
Number of Daily Permits Issued	52	67	72	76	87
Number of Annual Permits Issued	486	492	621	752	686
<b>City Clerk</b>					
Number of Council Resolutions Passed	127	117	130	143	167
Number of Ordinances Passed	7	4	6	13	16
Number of Contracts Passed	151	156	221	197	206
<b>General Services</b>					
Number of Purchase Orders Issued	610	588	557	396	365
<b>Police</b>					
Physical Arrests	1,062	1,062	1,165	925	831
Parking Violations	10,207	10,136	4,041	11,148	11,512
Traffic Violations	1,674	1,674	1,714	2,588	3,008
DUI Arrests	148	148	100	88	110
<b>Library</b>					
Circulated e-audiobooks	1,564	1,506	965	1,516	2,546
<b>Other Public Works</b>					
Street Resurfacing/Overlay/Reconstruction (miles)	12	1.7	2.1	3.5	4.7
ADA Compliance: Curb Ramps	0	9	9	9	13
Traffic Circles	1	1	1	1	1
Street Poles	1,575	1,575	1,575	1,575	1,605
<b>Planning and Development Department</b>					
Building & Safety Inspections Performed	*	13,376	11,110	10,367	9,055
Redevelopment: Number of active projects	2	2	4	3	3

Note : Data prior to 2005/06 is not available.

Source: Town of Los Gatos, Finance Department

\* Data is being compiled by departments but unavailable at printing

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

Function/Program	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Police</b>					
Number of Stations	1	1	1	1	2
Number of Patrol Units	15	15	15	15	14
Parking Enforcement Vehicles	3	3	3	3	2
<b>Other Public Works</b>					
Streets (miles)	112	112	112	112	112
Streetlights	2,064	2,190	2,190	2,190	2,112
Traffic Signals	28	28	28	28	28
<b>Parks and Recreation</b>					
Number of Parks	12	12	12	12	12
Number of Community Centers	1	1	1	1	1
<b>Parking</b>					
Number of Parking Garages	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126

Note: Certain data required by GASB 44 was not available prior to 2005/06.

Source: Town of Los Gatos, Finance Department

***Other Independent Auditor's Reports***

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**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***

The Honorable Mayor and Members of the Town Council  
Town of Los Gatos

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Los Gatos (the "Town") as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Los Gatos' 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 the



following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town failed to submit Federal grant project reimbursement claims for Robert Road Bridge Reconstruction Project at least once every six months required by the grant agreement.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*C. G. Uhlenberg LLP*

Redwood City, California  
December 17, 2010