



TOWN OF LOS GATOS

CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

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

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TOWN HISTORY

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

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

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

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal of the community. From the first 100-acre town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 31,546. 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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Introductory Section

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

January 23, 2015

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, 2014. 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, 2014, 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 Chavan & Associates LLP, the Town's independent certified public accountants.

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

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as “Silicon Valley.” From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 31,546. 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 appointed by the Council from its own ranks and serve for one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees traditional municipal services such as Public Safety, Parks & Public Works, Community Development, Community Services and a Public Library.

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

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the Town of Los Gatos has been impacted by the effects of the national economic downturn. While the economy is improving and economically sensitive revenues, such as Transient Occupancy Tax, and License and Permit revenues, are increasing, the Town still experienced a decrease in operating revenues. As a result of the recession and a change in the business model for one of the Town’s largest businesses, the Town has experienced significant reductions in sales tax revenues. In addition, while the property tax values in Los Gatos continue to

remain stable, The Town of Los Gatos experienced an overall decrease in property tax revenues due to the dissolution of the Redevelopment Agency.

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, the elimination of vacant positions, organizational realignments, 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) increased by 3% from the prior year. The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 21% of General Fund revenues in FY 2013/14. The FY 2013/14 \$8.0 million sales tax receipts were \$0.8 million lower than the prior year's collection. This decrease in sales tax is due to a business model change in Netflix, an internet streaming provider, which previously accounted for nearly 40% of all sales tax received by the Town. However, overall the outlook for sales tax is promising as many businesses are reporting increased revenues. Therefore, given the change in the Netflix business model, diversification remains a top priority for the Town.

Los Gatos property values remain largely stable, with moderate growth forecasted given increased home sales coupled with adjustments in property tax distribution due to the dissolution of the California redevelopment agencies. Despite the slow economic recovery, the Town continues to strategically use its Economic Vitality program to ensure the fiscal health of the Town.

The Town continues to experience challenges due to the State of California's budget impacts. Effective February 1, 2012, redevelopment agencies were dissolved and suspended all activities, with the exception of the implementation of existing contracts and payment of enforceable obligations entered into prior to February 1, 2012. While the Successor Agency will continue to receive tax increment revenue to pay enforceable obligations, like debt service, funding for administrative services and various program reimbursements has been significantly limited.

In addition, the Town is preparing for a sharp increase in CALPERS employer rates effective in FY 2015/16. Estimates indicate the Town may be paying 34% more in 10 years than it is currently costing the Town today. The Town has managed to limit the effects of State revenue reductions and expanding future costs due to increase CALPERS rates 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 and mandated increased costs, the Town has maintained high service levels due to the General Fund's strong fiscal health through FY 2013/14. The Town continues to diligently outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR INITIATIVES

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$4.1 million in Town infrastructure and other capital asset improvements were made in FY 2013/14, including \$1.9 million for street improvement projects including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety Town-wide, \$0.8 million in traffic signal work in progress, \$0.5 million in annual curb, gutter, and sidewalk improvements and retaining walls, and \$0.2 million for various Town park improvements. for the phase 3 completion of the Pageant Grounds, and \$500,000 for curb, gutter, sidewalk improvements, and retaining wall repairs

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data,
- 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, 2013 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Chavan & Associates LLP performs this function for the Town of Los Gatos, and its 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 Jen Callaway, Finance & Budget Manager, Krysten Lee, Accountant; Linda Isherwood, Analyst, Nicole Tram, Payroll Specialist, and Gitta Ungvari Administrative Technician, for their efforts in preparing this report.

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Mayor and Town Council
January 23, 2015

Respectfully submitted,



Greg Larson
Town Manager



Stephen D. Conway
Director of Finance & Administrative Services

**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2014**

TOWN COUNCIL

Mayor	Steve Leonardis
Vice Mayor	Marcia Jensen
Council Member	Diane McNutt
Council Member	Joe Pirzynski
Council Member	Barbara Spector

COUNCIL APPOINTEES

Town Manager	Greg Larson
Town Attorney	Robert Schultz

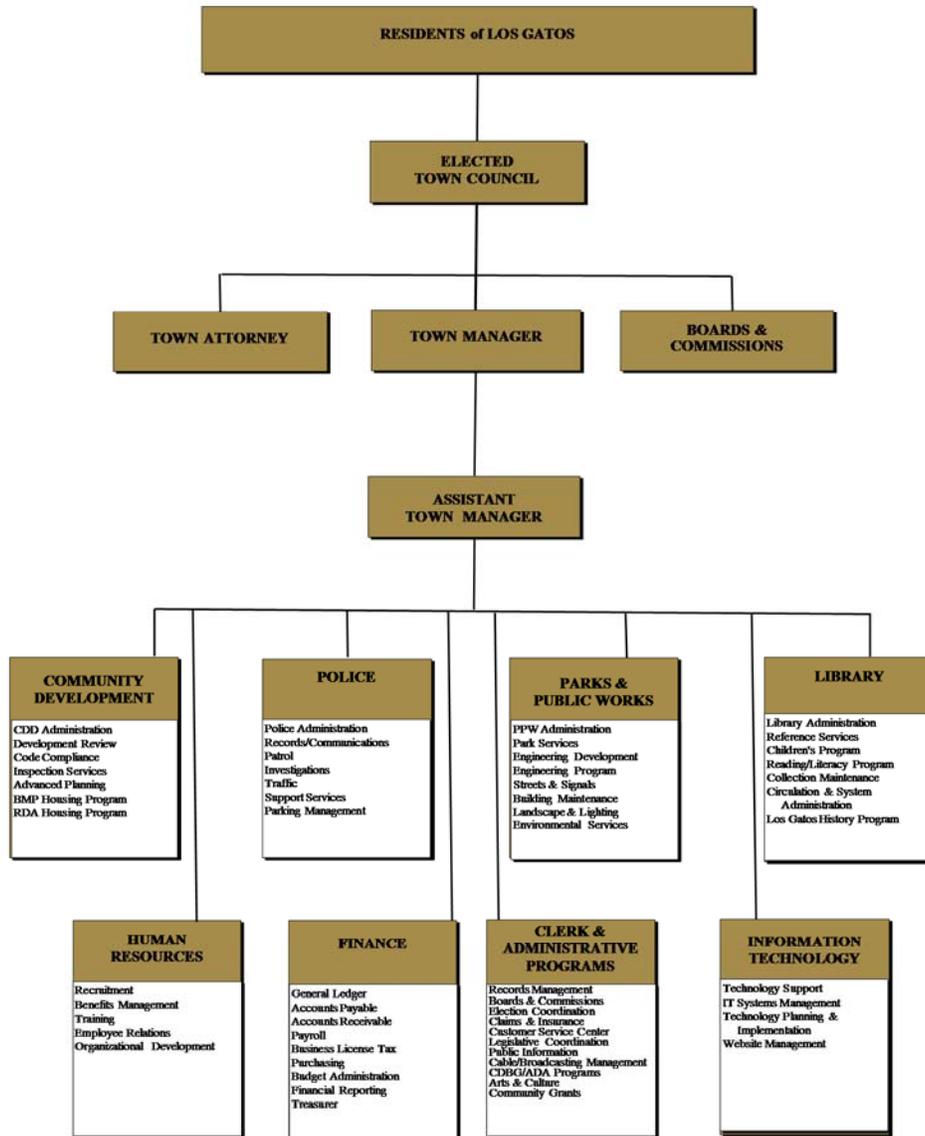
APPOINTED OFFICIALS

Assistant Town Manager/ Community Development Director	Laurel Prevetti
Chief of Police	Scott Seaman
Finance and Administrative Services Director	Stephen Conway
Human Resources Director	Rumi Portillo
Parks and Public Works Director	Matt Morley
Town Librarians	Henry Bankhead & Heidi Murphy



Town of Los Gatos

Organizational Structure





Government Finance Officers Association

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

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Financial Section



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

C & A LLP

January 24, 2015
San Jose, California

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for fiscal year ending June 30, 2014. 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 2013/14 by \$142,129,628 (net position). Of this amount, \$44,393,265 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's Net position increased by \$4,141,145 due primarily to General Fund revenues above expenditures after the re-characterization of a one-time pension side fund expenditure to a \$4.5 million dollar prepaid asset to be amortized in future fiscal years.
- Total fund balances for governmental funds at year end were \$38,015,239, a decrease of \$449,336 (1%) from the prior year. Fund balances decreased primarily due to the use of fund balance for approximately \$4.5 million of General Fund resources used for a one-time payoff of its pension "side fund" accrued liability, netted against revenue above expenditures in all other governmental funds.
- At the end of FY 2013/14, fund balance for the General Fund was \$25,155,125, approximately 64% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets increased by \$692,594 net of depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, 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 was financially accountable. In accordance with Assembly Bill 1X 26 (AB 1X26) which provides for the dissolution of all redevelopment agencies in the State of California, the Town of Los Gatos agreed to serve as the successor agency and thereby to hold the assets until they were distributed to other units of state and local government. In accordance with AB 1X26, the Town of Los Gatos Redevelopment Agency dissolved and ceased to operate as a legal entity on February 1, 2012.

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

Fund financial statements

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

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

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

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

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

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

Notes to basic financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 29-56 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$142 million at the end of the current fiscal year.

Town of Los Gatos Net Position

	Governmental Activities	
	2014	2013
Current and other assets	\$ 69,546,911	\$ 64,947,081
Capital assets	93,251,117	92,558,523
Total assets	<u>\$ 162,798,028</u>	<u>\$ 157,505,604</u>
Current liabilities	\$ 11,398,556	\$ 10,764,520
Long-term liabilities	9,269,844	8,752,601
Total liabilities	<u>\$ 20,668,400</u>	<u>\$ 19,517,121</u>
Net position:		
Net Investment in Capital Assets	\$ 93,251,117	\$ 92,558,523
Restricted	4,485,246	3,949,583
Unrestricted	44,393,265	41,480,377
Total net position	<u>\$ 142,129,628</u>	<u>\$ 137,988,483</u>

Capital assets represent approximately 57% 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 \$692,594 as a result of approximately \$4.0 million, net of construction in progress, in capital improvements made during the fiscal year, offset by \$3.4 million in capital assets depreciation and retirements.

An additional portion of the Town's net position (3%) represents resources that are subject to external restrictions on how they may be used. The balance of *Unrestricted net position* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *Unrestricted net position* represent (31%) of the Town's net position at year end.

Governmental activities

**Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2012**

	Governmental Activities	
	2013	2013
Revenues:		
Program revenues:		
Charges for services	\$ 12,473,007	\$ 12,003,092
Operating grants and contributions	1,051,419	935,530
Capital grants and contributions	2,294,239	2,926,930
General Revenues:		
Property taxes	11,712,312	10,729,602
Total property taxes	11,712,312	10,729,602
Sales taxes	8,029,571	8,757,428
Franchise taxes	2,063,756	2,028,903
Other taxes	1,654,649	1,361,699
Motor vehicle in lieu	13,068	15,790
Investment earnings	772,200	(133,375)
Miscellaneous	350,468	1,154,647
Special item	-	1,534,456
Total revenues	<u>\$ 40,414,689</u>	<u>\$ 41,314,702</u>
Expenses:		
Police Department	\$ 14,119,786	\$ 13,731,754
Parks and Public Works	8,154,616	7,829,315
General Government	6,955,804	6,564,768
Community Development	4,424,040	4,094,188
Library Services	2,234,431	2,128,823
Redevelopment (Prmts to SA)	21,687	1,277,063
Sanitation	363,180	393,205
Total expenses	<u>\$ 36,273,544</u>	<u>\$ 36,019,116</u>
Change in net position	<u>4,141,145</u>	<u>5,295,586</u>
Net position, beginning	137,988,483	132,692,897
Net position, ending	<u>\$ 142,129,628</u>	<u>\$ 137,988,483</u>

As shown in the schedule above, governmental activities for the year increased the Town's net position by \$4,141,145. Key elements of the increase in net position are as follows:

- Property Tax revenues collected for the Town and the Redevelopment Agency accounted for 29% of total Town revenues. Property tax revenues for Town activities increased by \$982,710 or 8%, from FY 2012/13 due primarily to the economic recovery and the continued strong demand for housing in Los Gatos.
- Sales Tax revenue of \$8.0 million accounted for 20% of Town total revenues for the year. The 8.3% decrease of approximately \$727,857 from the prior year collections is due to the a business model change in Netflix, an internet streaming provider, which previously accounted for nearly 40% of all sales tax received by the Town.

- Other taxes, other revenues, and motor vehicle in lieu taxes of \$3,731,473 accounted for 9% of total revenues, increasing by 10% from the prior year's amount of \$3,406,392. This increase was primarily the result of the economic recovery and its attendant increase in economically sensitive revenues.
- Investment earnings of 772,200, net of amortized premiums, increased by \$905,575 from the prior year. This increase was due a recovery in market value in the Town's portfolio as compared to the prior year.
- Total expenditures increased by \$254,428 or 1% from the prior year. This increase was primarily the result of increased expenditures in general government.

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 2013/14, the Town's governmental funds reported combined ending fund balances of \$38,015,239, a decrease of \$449,336 in comparison with the prior year. This decrease is primarily due to the one-time \$.4.5 million pay off the Town's pension side fund, combined with General Fund and other governmental fund revenues above expenditures.

Approximately 88% or \$33,529,993 of the total amount of governmental fund balances of \$38,015,239 is assigned or unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is restricted and is not available for new spending because it has already been restricted to (1) provide for appropriated capital projects (\$4,315,988); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$169,258).

General Fund - The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the General Fund net fund balance decreased by 12% from prior year balances to \$25,155,125. This decrease is primarily due to the one-time \$.4.5 million pay off the Town's pension side fund, combined with General Fund and other governmental fund revenues above expenditures. General Fund expenditures (excluding transfers-out) increased by 3% from the prior fiscal year primarily due to a previously bargained increased for Public Safety Officers and benefit cost payments related to the Town's pension and post-retirement medical plans for both safety and non-safety employees. Additionally, the General Fund absorbed administrative and other costs effective February 1, 2012 from the former Redevelopment Agency.

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 to \$8,191,823 primarily due to capital transfers made in advance in the current year for which expenditures planned but unexpended in the fiscal year.

Other Non-Major Other Governmental Funds. These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds increased by \$561,500.

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 \$497,619 and \$139,067 respectively versus \$499,341 and \$80,085 in the prior year. The increase in operating income in the Vehicle Maintenance Fund from the prior year is attributable to vacancy savings and reduced operating expenses. The increase in Equipment Replacement Fund is attributable to the cyclical nature of fleet purchases in accordance with the Town's fleet replacement schedule.

The Building Maintenance, Stores, and Management Information Systems funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail and office inventory and duplication charges, and management information services. Net operating income (loss) before transfers at year end was \$231,111, (\$9,920) and \$165,567 respectively. Revenues exceeded expenditures in the Building Maintenance Fund due to decreased heating, ventilation and air conditioning maintenance and repair costs experienced in the prior year. The office store expenditures increased because of the additional copiers added to the maintenance lease for the New Library building during FY 2012/13. 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 (\$670,217) and (\$295,475) respectively, versus (\$53,723) and (\$243,106) in the prior year. The decrease of Operating income for the year in the Worker’s Compensation and Self Insurance funds reflects the adverse experience of loss claims in the current year from the prior year in Worker’s Compensation and general liability claim payments and settlements.

GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:

Budget Adjustments

Comparing the FY 2013/14 original budget (or adopted) General Fund Expenditures of \$33,770,523 (excluding budgeted transfers-out), the final budget amount of \$34,008,889 shows a net increase of \$238,366. Additions to the original budget included approved encumbrance carry-forwards of \$56,741, additions of \$181,625 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carry-forwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$33,770,523	\$56,741.00	\$-0-	\$181,625	\$34,008,889

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

- \$56,741 increase due to approved encumbrance carry-forwards.
- \$40,000 increase relating to a new agreement with CSG Consultants, Inc. to continue to provide part-time code enforcement services for the Town.
- \$50,000 increase for executive recruitment services due to a high number of anticipated recruitments needed for fiscal year 2013/14.
- \$54,000 increase for special election expenses.
- \$15,000 increase for Town-wide training.
- \$17,899 increase for emergency management services. The Town is receiving Emergency Management Performance Grant (EMPG) funding to offset the corresponding expenditures.

Comparing the FY 2013/14 final amended budget to the actual result shows \$3.6 million in operational savings 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

As of June 30, 2014, the Town's investment in capital assets for its governmental activity is recorded at \$93,251,117 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2013/14 the Town's \$4.0 million investment in capital assets for the current year represented approximately 4% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$1.9 million for street improvements;
- \$0.8 million added to Construction in Progress largely for traffic signals;
- \$0.5 million annual curb, gutter, and sidewalk improvements and retaining walls;
- \$.20 million for various Town park improvement projects

June 30, 2014
Town of Los Gatos
Capital Assets (net of accumulated depreciation)

	Governmental Activities
Land	\$20,333,684
Construction in progress	997,145
Buildings	23,297,775
Equipment	2,115,516
Infrastructure	46,506,997
	<u>\$93,251,117</u>

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

Economic Factors and Next Year's Budgets and Rates

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

During the development and adoption of the Town's FY 2014/15 budget, the Town Council and management considered the following factors:

- The Town anticipates an increase in sales tax growth for FY 2014/15. Sales tax estimates of \$8.3 million for FY 2014/15 were budgeted reflecting an approximate 6% increase from the prior year's adopted sales tax of approximately \$7.8 million dollars. The increase reflects that the economy was coming out of the recession and business was positive in most categories of business activity. The Town is still being impacted by the business model change in Netflix, an internet streaming provider,

which previously accounted nearly 40% of all sales tax received by the Town. With sales tax representing approximately 23% of the Town's General Fund revenues, any fluctuation in local sales tax collections will significantly impact the Town.

- General property tax collections represent approximately 22% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues and anticipated to experience an increase of slight increase of 1% based on data from the Santa Clara County Tax Assessor's Office. Los Gatos is one of the few cities in Santa Clara County that did not encounter significant loss of assessed valuation due to the recent recession and expects positive growth for FY 2013/14. The increase in property tax is largely attributable to the rebound in property values associated with the current economic recovery.
- The Town's investment portfolio experienced a slight increase in its overall weighted average annual yield, rising from 0.66% at June 30, 2013 to 0.68% at June 30, 2014. As a result of expected declining interest rates for FY 2014/15, and reduced cash balances due to significant capital expenditures, investment earnings are expected to be lower than the prior year. Budgeted estimates have been reduced to \$310,340 from the adjusted budget estimate to \$477,970 from the prior year.
- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2014/15 as personal and business related travel is gaining strength. Given the increase in travel activity, the FY 2014/15 TOT revenues were budgeted at \$1,274,000 reflecting an 25% increase from the FY 2013/14 adopted budget but an overall 6% increase from actual revenues received in FY 2013/14.

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

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 60,456,383
Restricted cash and investments (Note 2)	33,813
Receivables:	
Accounts	1,393,752
Interest	241,285
Intergovernmental	1,436,450
Materials, supplies and deposits	27,743
Long term notes receivables (Note 3)	1,422,947
Long-term prepaid pension obligations	4,534,538
Capital Assets (Note 5):	
Nondepreciable	21,330,829
Depreciable, net of accumulated depreciation	71,920,288
Total Assets	\$ 162,798,028
LIABILITIES	
Accounts payable	\$ 1,386,728
Accrued payroll and benefits	2,872,989
Due to other governments	10,256
Deposits	4,639,974
Claims payable (Note 11)	1,258,640
Long-term liabilities:	
Due within one year	
Compensated absences (Note 1)	1,229,969
Due in more than one year	
Post retirement benefits (Note 10)	4,048,004
Compensated absences (Note 1)	1,051,687
Total Liabilities	\$ 16,498,247
DEFERRED INFLOWS OF RESOURCES	
Unearned Revenue	\$ 4,170,153
NET POSITION (Note 1)	
Net investment in capital assets	\$ 93,251,117
Restricted for:	
Capital projects	4,315,988
Lighting and landscape repairs and maintenance	169,258
Total Restricted Net Position	4,485,246
Unrestricted	44,393,265
Total Net Position	\$ 142,129,628

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, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 6,955,804	\$ 2,179,077	\$ -	\$ -	\$ (4,776,727)
Public safety	14,119,786	3,206,579	42,661	-	(10,870,546)
Parks and public works	8,154,616	1,550,867	994,096	2,274,879	(3,334,774)
Community development	4,424,040	5,156,061	-	19,360	751,381
Library services	2,234,431	51,775	14,662	-	(2,167,994)
Sanitation	363,180	328,648	-	-	(34,532)
Payments to Successor Agency	21,687	-	-	-	(21,687)
Total Governmental Activities	\$ 36,273,544	\$ 12,473,007	\$ 1,051,419	\$ 2,294,239	(20,454,879)
General revenues:					
Taxes:					
Property taxes					11,712,312
Sales taxes					8,029,571
Franchise taxes					2,063,756
Other taxes					1,654,649
Motor vehicle in lieu					13,068
Investment earnings					772,200
Miscellaneous					350,468
Total general revenues					24,596,024
Change in Net Position					4,141,145
Net Position - Beginning					137,988,483
Net Position - Ending					<u>\$ 142,129,628</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, 2014
FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements:

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

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2014. Individual non-major funds can be found in the supplemental section.

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

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

**TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 31,906,324	\$ 11,427,160	\$ 4,670,975	\$ 48,004,459
Receivables:				
Accounts	1,366,864	22,609	2,804	1,392,277
Interest	241,285	-	-	241,285
Intergovernmental	1,286,610	-	149,840	1,436,450
Total Assets	\$ 34,801,083	\$ 11,449,769	\$ 4,823,619	\$ 51,074,471
LIABILITIES				
Accounts Payable	\$ 746,876	\$ 335,981	\$ 913	\$ 1,083,770
Accrued Payroll and Benefits	2,847,833	-	2,257	2,850,090
Due to other governments	9,597	-	-	9,597
Deposits	4,639,974	-	-	4,639,974
Compensated Absences	305,648	-	-	305,648
Total Liabilities	8,549,928	335,981	3,170	8,889,079
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenue	1,096,030	2,921,965	152,158	4,170,153
FUND BALANCE (Note 8)				
Restricted for:				
Capital Outlay	-	-	4,315,988	4,315,988
Repairs and Maintenance	-	-	169,258	169,258
Assigned to:				
Vasona Land Sale	411,245	-	-	411,245
Open Space	562,000	-	-	562,000
Post Retirement Medical	400,000	-	-	400,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Productivity Enhancements	100,000	-	-	100,000
Economic Uncertainty	4,178,192	-	-	4,178,192
Capital Projects	10,218,579	6,686,379	-	16,904,958
Carryover	56,741	-	-	56,741
Comcast PEG	-	45,234	-	45,234
Revenue Stabilization Fund	6,621,808	-	-	6,621,808
Special Studies	490,000	-	-	490,000
Compensated Absences	1,976,007	-	-	1,976,007
Unassigned	-	-	183,045	183,045
Total Fund Balances	25,155,125	8,191,823	4,668,291	38,015,239
Total Liabilities, Fund Balances and Deferred Inflows of Resources	\$ 34,801,083	\$ 11,449,769	\$ 4,823,619	\$ 51,074,471

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

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET
POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

Fund Balance - Total Governmental Funds \$ 38,015,239

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

CAPITAL ASSETS

Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. 93,251,117

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. 10,929,799

LONG-TERM PREPAID PENSION OBLIGATIONS

Payments made to pre-fund pension obligations are reported as expenditures in the governmental fund financial statements but required to be reported as noncurrent prepaid assets in the Statement of Net Position. 4,534,538

LONG-TERM LIABILITIES

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

Post Retirement Benefits	(4,048,004)	
Compensated absences	(1,976,008)	(6,024,012)

LONG-TERM NOTES RECEIVABLES

In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue. 1,422,947

Net Position - Governmental Activities \$ 142,129,628

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

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 11,689,275	\$ -	\$ 38,142	\$ 11,727,417
Sales Taxes	8,029,571	-	-	8,029,571
Other Taxes	3,602,385	-	116,020	3,718,405
Licenses & Permits	4,492,188	656,881	194,196	5,343,265
Intergovernmental	817,699	662,544	959,884	2,440,127
Charges for Services	4,742,432	766,501	328,648	5,837,581
Fines and Forfeitures	795,684	-	36	795,720
Interest	625,298	52,194	94,672	772,164
Use of Property	37,741	-	-	37,741
Other	3,635,919	-	12,358	3,648,277
Total Revenues	38,468,192	2,138,120	1,743,956	42,350,268
EXPENDITURES				
Current:				
General Government	8,499,854	-	-	8,499,854
Public Safety	13,742,189	-	-	13,742,189
Parks and Public Works	5,594,214	-	17,069	5,611,283
Community Development	4,335,599	-	-	4,335,599
Library Services	2,131,438	-	-	2,131,438
Sanitation and Other	-	-	322,817	322,817
Capital Outlay	577,214	2,808,158	712,290	4,097,662
Payments to Successor Agency	21,687	-	-	21,687
Total Expenditures	34,902,195	2,808,158	1,052,176	38,762,529
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,565,997	(670,038)	691,780	3,587,739
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4)	546,810	2,872,062	-	3,418,872
Transfers (out) (Note 4)	(2,683,746)	(107,383)	(130,280)	(2,921,409)
Total Other Financing Sources (Uses)	(2,136,936)	2,764,679	(130,280)	497,463
SPECIAL ITEM				
Prepayment of pension obligations	(4,534,538)	-	-	(4,534,538)
NET CHANGES IN FUND BALANCES	(3,105,477)	2,094,641	561,500	(449,336)
BEGINNING FUND BALANCES	28,260,602	6,097,182	4,106,791	38,464,575
ENDING FUND BALANCES	\$ 25,155,125	\$ 8,191,823	\$ 4,668,291	\$ 38,015,239

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, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ (449,336)
Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:		
LONG-TERM PREPAID PENSION OBLIGATIONS		
Prepaid pension obligations reported as expenditures in the governmental funds are converted to long-term prepaid assets and amortized over service periods identified plan valuation reports.		4,534,538
CAPITAL ASSET TRANSACTIONS		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets (additions)	\$ 3,965,511	
Current Year Depreciation	<u>(3,266,008)</u>	699,503
ACCRUAL OF NON-CURRENT ITEMS		
The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported in the governmental funds:		
Compensated absences		307,543
Post retirement benefits		(563,143)
ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY		
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.		(437,711)
LONG TERM NOTES RECEIVABLES AND ASSOCIATED DEFERRED REVENUE		
Interest income and proceeds from long term notes receivables is recorded on the Statement of Activities but is considered a resource not available for governmental funds		<u>49,751</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 4,141,145</u>

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

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 10,190,806	\$ 10,699,995	\$ 11,689,275	\$ 989,280
Sales Taxes	7,797,615	7,868,092	8,029,571	161,479
Other Taxes	3,059,070	3,244,070	3,602,385	358,315
Licenses & Permits	3,796,203	4,005,203	4,492,188	486,985
Intergovernmental	739,685	772,216	817,699	45,483
Charges for Services	3,578,478	3,772,811	4,742,432	969,621
Fines and Forfeitures	732,520	592,350	795,684	203,334
Interest	477,970	302,290	625,298	323,008
Use of Property	37,223	37,223	37,741	518
Other	2,500,432	2,547,285	3,635,919	1,088,634
Total Revenues	32,910,002	33,841,535	38,468,192	4,626,657
EXPENDITURES				
Current:				
General Government:				
Town Council	201,104	199,537	188,111	11,426
Town Attorney	230,327	227,027	238,253	(11,226)
Administrative Services	2,814,031	2,786,649	2,685,490	101,159
Non-Departmental	4,961,820	5,266,280	5,388,000	(121,720)
Total General Government	8,207,282	8,479,493	8,499,854	(20,361)
Public Safety	13,492,115	13,485,623	13,742,189	(256,566)
Community Development	3,940,380	3,939,349	4,335,599	(396,250)
Parks & Public Works	5,899,429	5,874,868	5,594,214	280,654
Library Services	2,231,317	2,229,556	2,131,438	98,118
Capital Outlay	-	-	577,214	(577,214)
Payments to Successor Agency	-	-	21,687	(21,687)
Total Expenditures	33,770,523	34,008,889	34,902,195	(893,306)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(860,521)	(167,354)	3,565,997	3,733,351
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	816,737	726,440	546,810	(179,630)
Operating Transfers Out	(2,754,399)	(2,754,399)	(2,683,746)	70,653
Total Other Financing Sources (Uses)	(1,937,662)	(2,027,959)	(2,136,936)	(108,977)
SPECIAL ITEM				
Prepayment of pension obligations	-	(4,534,538)	(4,534,538)	-
NET CHANGES IN FUND BALANCES	\$ (2,798,183)	\$ (6,729,851)	(3,105,477)	\$ 3,624,374
BEGINNING FUND BALANCE			28,260,602	
ENDING FUND BALANCE			\$ 25,155,125	

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, 2014**

**PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS**

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

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF NET POSITION
 JUNE 30, 2014**

	Governmental Activities Internal Service Funds
	Funds
ASSETS	
Current Assets:	
Cash & investments (Note 2)	\$ 12,451,924
Restricted cash & investments (Note 2)	33,813
Accounts Receivable	1,475
Materials, supplies, and deposits	27,743
Total current assets	12,514,955
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Note 5)	4,383
Total Assets	\$ 12,519,338
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 302,958
Accrued payroll and benefits	22,899
Due to other governments	659
Total current liabilities	326,516
Noncurrent liabilities:	
Claims payable (Note 11)	1,258,640
Total Liabilities	\$ 1,585,156
NET POSITION (Note 1)	
Invested in capital assets, net of related debt	\$ 4,383
Restricted for workers compensation claims	33,813
Unrestricted	10,895,986
Total Net Position	\$ 10,934,182

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

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 4,269,104
Interest	10
Use of money and property	189,951
Other	365,869
	4,824,934
OPERATING EXPENSES	
Salaries and related expenses	1,050,093
Insurance expenses	641,158
Depreciation	6,908
Services and Supplies	3,067,023
	4,765,182
Operating Income	59,752
Transfers in (Note 4)	-
Transfers out (Note 4)	(497,463)
	(497,463)
Net transfers	(497,463)
Change in Net Position	(437,711)
BEGINNING NET POSITION	11,371,893
ENDING NET POSITION	\$ 10,934,182

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

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,825,667
Payments to suppliers	(1,663,323)
Payments to employees	(1,046,994)
Claims paid	(1,882,855)
Net cash provided (used) by operating activities	232,495
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	-
Transfers Out	(497,463)
Net cash provided (used) by noncapital financing activities	(497,463)
Net Increase(Decrease) in Cash and Investments	(264,968)
Cash and investments - beginning of year	12,750,705
Cash and investments - end of year	\$ 12,485,737
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ 59,752
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	6,908
Change in assets and liabilities:	
Receivables, net	733
Other assets	(3,347)
Accounts payable and other accrued expenses	58,460
Other accrued expenses	109,989
Cash Flows From Operating Activities	\$ 232,495

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, 2014

FIDUCIARY FUNDS

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

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

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

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

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

TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Total Private Purpose Trust Funds	Agency Fund <u>Parking Improvement District #88</u>
ASSETS		
Cash and investments (Note 2)	\$ 2,313,142	\$ -
Restricted cash and investments (Note 2)	2,001,533	287,174
Loans receivable (Note 3)	528,769	-
Capital assets (Note 5):		
Nondepreciable	5,257,422	-
Depreciable, net of accumulated depreciation	2,033,854	-
	<u>\$ 12,134,720</u>	<u>\$ 287,174</u>
LIABILITIES		
Accounts payable	\$ 4,099	\$ -
Due to other governments (Note 13)	161	287,174
Interest payable	400,616	-
Long-term debt (Note 6):		
Due within one year	990,000	-
Due in more than one year	21,477,475	-
	<u>\$ 22,872,351</u>	<u>\$ 287,174</u>
NET POSITION		
Held in trust	<u>\$ (10,737,631)</u>	
	<u>\$ (10,737,631)</u>	

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

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Total
ADDITIONS	
Investment earnings	\$ 74,810
Gifts, bequests and endowments	36,283
Repayment of Town obligations	21,687
Other	4,002,641
Total Additions	4,135,421
DEDUCTIONS	
Program expenses of former RDA	279,595
Payments to other governments	110,635
Interest and fiscal agency expenses of RDA	2,900,240
Library services	112,227
Depreciation expense	101,693
Total Deductions	3,504,390
CHANGE IN NET POSITION	631,031
NET POSITION - BEGINNING OF YEAR	(11,368,662)
NET POSITION - END OF YEAR	\$ (10,737,631)

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

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the “Town”) operates under a Council-Manager form of government and provides the following services; public safety (including police, 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 were provided primary through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2014 was 31,546.

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

B. Description of Blended Component Units

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

C. Description of Joint Ventures and Public Entity Risk Pool

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

D. Basis of Presentation

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

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

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

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

E. Major Funds

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

The Town also reports the following fund types:

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

F. Basis of Accounting

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

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:

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

The changes of the compensated absences were as follows:

Beginning Balance	\$ 2,451,431
Additions	1,092,734
Payments	<u>(1,262,509)</u>
Ending Balance	<u>\$ 2,281,656</u>
Current Portion	<u>\$ 1,229,969</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.

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

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

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

Subsequent Events - Management has considered subsequent events through January 24, 2015, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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.

Excess of Expenditures over Appropriations - Expenditures exceeded budget by \$893,306 in the General Fund due to unanticipated community development costs, public safety costs and capital outlay. No other general fund or special revenue funds have expenditures in excess of budget for the year ended June 30, 2014.

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.

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

Statement No. 68 - In June, 2013, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this

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Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The Town is in the process of determining the impact this statement will have on the financial statements.

Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, *combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Town believes there will be no financial statement effect related to this Statement.

Statement No. 70 – In April, 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). The Town does not participate in nonexchange transactions and this Statement will have no financial statement effect.

Statement No. 71 – In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state, or local government, employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net liability. The requirements of this Statement are effective for periods beginning after December 15, 2013, in conjunction with Statement No. 68. The Town is in the process of determining the impact this statement will have on the financial statements.

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NOTE 2 - CASH AND INVESTMENTS

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

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

Cash Deposits with Banks and Custodial Credit Risk - California Law requires banks and savings and loan institutions to pledge government securities with a 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 \$15,085,377 as of June 30, 2014. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to \$250,000 for each bank. As of June 30, 2014, the Town's cash balances exceeded FDIC by \$14,585,377 but were collateralized as discussed above.

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

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, 2014, LAIF had approximately \$57.6 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, 2014 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows:

1. **Structured Notes** are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

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2. Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2014, the Town had \$4,198,887 invested in LAIF, which had invested .48% 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 LAIF. This factor was 1.0003 and was the result of dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost.

Risk Disclosures - *Interest Rate Risk* is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on page 42 that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on page 42 shows the minimum rating under the actual rating of the Town's investments at year end.

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

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2014.

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

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

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.

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2014:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Investment Rating	Concentration of Credit Risk	Time to Mature (Years)	Weighted Average Maturity
U.S. Government Agency securities	\$ 47,154,147	\$ -	\$ 47,154,147	Aaa/AAA	92%	2.17	1.99
Government Securities Money							
Market Mutual Funds	17,356	-	17,356	Not Rated	0%		
LAIF	4,161,434	37,453	4,198,887	Not Rated	8%	0.64	0.05
Total Investments	51,332,937	37,453	51,370,390		<u>100%</u>		
Cash Deposits with Banks	11,432,488	33,813	11,466,301				
Money Market Accounts	-	2,251,254	2,251,254				
Cash on hand at Town	4,100	-	4,100				
Total Cash and Investments	<u>\$ 62,769,525</u>	<u>\$ 2,322,520</u>	<u>\$ 65,092,045</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.

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

	Total Town	Fiduciary Funds	Totals
Cash and investments available for operations	\$ 60,456,383	\$ 2,313,142	\$ 62,769,525
Restricted cash and investments	33,813	2,288,707	2,322,520
Total cash and investments	\$ 60,490,196	\$ 4,601,849	\$ 65,092,045

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2014:

Description	Interest Rate	Maturity	Balance
General Fund:			
Open Doors Associates, Ltd.	7%	2024	\$ 823,848
BMP Loans	3%	Various	231,117
Total General Fund			1,054,965
Community Development Block Grant Fund (CDBG):			
Active Home Loans	Various	Various	108,579
Open Doors Associates, Ltd.	7%	2024	98,660
Housing Conservation Loans	0-5%	Various	160,743
Total CDBG			367,982
Total Long-Term Notes Receivable - Government-wide Statement of Net Assets			1,422,947
Successor Agency Affordable Housing:			
Project Match	Various	Various	528,769
Total Long-Term Notes Receivable			\$ 1,951,716

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

Under a note dated April 21, 1992, the Town agreed to a loan with Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. As of June 30, 2014, \$823,848 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.

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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 Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four or five bedroom single family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2014, no interest or principal payments have been made.

NOTE 4 - INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2014, there were no inter-fund receivables and payables.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2014 were as follows:

Funds Making Transfers	Fund Receiving Transfers		Total Transfers Out
	General Fund	Appropriated Reserve	
General Fund	\$ -	\$ 2,683,746	\$ 2,683,746
Appropriated Reserve	107,383	-	107,383
Internal Service Funds	328,507	168,956	497,463
Nonmajor Governmental	110,920	19,360	130,280
Total Transfers In	\$ 546,810	\$ 2,872,062	\$ 3,418,872

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NOTE 5 - CAPITAL ASSETS

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

	Balance at June 30, 2013	Adjustments and Additions	Retirements	Balance at June 30, 2014
Capital Assets not being depreciated:				
Land	\$ 20,333,684	\$ -	\$ -	\$ 20,333,684
Construction in Progress	179,723	837,643	20,221	997,145
Total capital assets not being depreciated	<u>20,513,407</u>	<u>837,643</u>	<u>20,221</u>	<u>21,330,829</u>
Capital Assets being depreciated:				
Buildings and Improvements	28,180,928	135,335	-	28,316,263
Equipment & Vehicle	8,992,577	355,769	186,509	9,161,837
Infrastructure - All Other	19,862,407	753,124	-	20,615,531
Infrastructure - Streets	52,080,219	1,903,861	-	53,984,080
Total capital assets being depreciated	<u>109,116,131</u>	<u>3,148,089</u>	<u>186,509</u>	<u>112,077,711</u>
Less accumulated depreciation for:				
Buildings and Improvements	4,440,004	578,484	-	5,018,488
Equipment & Vehicle	6,778,155	454,675	186,509	7,046,321
Infrastructure - All Other	2,178,079	662,080	-	2,840,159
Infrastructure - Streets	23,674,777	1,577,678	-	25,252,455
Total accumulated depreciation	<u>37,071,015</u>	<u>3,272,917</u>	<u>186,509</u>	<u>40,157,423</u>
Net capital assets being depreciated	<u>72,045,116</u>	<u>(124,828)</u>	<u>-</u>	<u>71,920,288</u>
Governmental activity capital assets, net	<u>\$ 92,558,523</u>	<u>\$ 712,815</u>	<u>\$ 20,221</u>	<u>\$ 93,251,117</u>

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

Governmental Activities	Depreciation Expense
General Government	\$ 275,134
Public Safety	362,750
Parks & Public Works	2,386,553
Community Development	121,750
Library	85,815
Sanitation	40,914
Total Governmental Activities	<u>\$ 3,272,916</u>

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

	Balance at June 30, 2013	Adjustments and Additions	Retirements	Balance at June 30, 2014
Capital Assets not being depreciated:				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total capital assets not being depreciated	5,257,422	-	-	5,257,422
Capital Assets being depreciated:				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total capital assets being depreciated	4,067,708	-	-	4,067,708
Less accumulated depreciation for:				
Buildings and Improvements	1,932,163	101,691	-	2,033,854
Total accumulated depreciation	1,932,163	101,691	-	2,033,854
Net capital assets being depreciated	2,135,545	(101,691)	-	2,033,854
Successor Agency capital assets, net	\$ 7,392,967	\$ (101,691)	\$ -	\$ 7,291,276

NOTE 6 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2014:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 8,325,000	\$ 285,000	\$ 8,040,000	\$ 295,000	\$ 7,745,000
2010 COP	2.5-4.25%	2028	15,675,000	14,495,000	670,000	13,825,000	695,000	13,130,000
Subtotal COP's			26,400,000	22,820,000	955,000	21,865,000	990,000	20,875,000
Premiums			753,095	640,130	37,655	602,475	-	602,475
Total Long-Term Debt			\$ 27,153,095	\$ 23,460,130	\$ 992,655	\$ 22,467,475	\$ 990,000	\$ 21,477,475

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

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

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 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 Successor Agency private-purpose trust fund.

Future debt service requirements of the 1992, 2002, and 2010 Certificates of Participation (collectively the “COPs”) as of June 30, 2014, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2015	\$ 990,000	\$ 938,055	\$ 1,928,055
2016	1,025,000	897,398	1,922,398
2017	1,065,000	858,303	1,923,303
2018	1,105,000	809,739	1,914,739
2019	1,150,000	759,073	1,909,073
2020-2024	6,515,000	2,986,630	9,501,630
2025-2029	8,155,000	1,396,500	9,551,500
2030-2032	1,860,000	142,500	2,002,500
Total COP Debt Service	\$ 21,865,000	\$ 8,788,198	\$ 30,653,198

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled \$2,001,533 as of June 30, 2014. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

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

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of the non-obligated debt outstanding was \$0 as of June 30, 2014 and was excluded from the Town’s financial statements.

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NOTE 8 - FUND BALANCES

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

As of June 30, 2014, fund balances were classified as follows:

Restricted

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

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

Assigned

Vasona Land Sale assigned fund balance will be used for acquisition and development of a new Town sports park.

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

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

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

Market Fluctuations assigned fund balance will be used to manage changes in fair values of investments.

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

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

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

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

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

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

Revenue Stabilization assigned fund balance 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.

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

NOTE 9 - 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, 2014 was 21.899% of annual covered payroll for non-safety (miscellaneous) and 40.850% 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, 2014, the Town's \$4,387,760 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, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses); (b) projected annual salary increases from 3.3% and 14.20% that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% 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 15-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 6% 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.

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Three Year Trend Information PERS

Safety Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	2,094,561	100%	-
6/30/2013	2,187,866	100%	-
6/30/2014	2,325,804	100%	-

Miscellaneous Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	1,852,519	100%	-
6/30/2013	1,919,586	100%	-
6/30/2014	2,061,956	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.

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
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	973,814,168	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%

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
2010	70,468,550	59,225,131	11,243,419	84.0%	8,888,743	126.5%
2011	75,549,721	61,760,502	13,789,219	81.7%	8,616,783	160.0%
2012	78,518,032	64,050,671	14,467,361	81.6%	9,138,998	158.3%

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NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

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

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

Funding Policy - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the year ended June 30, 2014, the Town contributed \$2,053,856 to the plan, including \$753,856 for current premiums and an additional \$1,300,000 to prefund benefits. All related obligations are paid from the Town's General Fund.

Annual OPEB Cost and Net OPEB Obligation - As of June 30, 2014 and for the year then ended, the Town's Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

NOO as of June 30, 2013	\$ 3,484,860
Annual OPEB Cost	
Annual Required Contribution	2,619,000
Interest on NOO	219,000
NOO adjustment	(221,000)
Net annual OPEB cost	<u>2,617,000</u>
Contributions made (includes benefit payments)	<u>(2,053,856)</u>
NOO as of June 30, 2014	<u><u>\$ 4,048,004</u></u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Trend Information

Year	Actual Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 2,056,000	\$ 1,725,956	84%	\$ 2,881,907
2013	2,490,000	1,887,047	76%	3,484,860
2014	2,617,000	2,053,856	78%	4,048,004

Plan Actuarial Value and Funding Progress

As of June 30, 2014, the plan was 34% funded. The actuarial accrued liability (AAL) for benefits was \$20,706,000 and the actuarial value of plan assets was approximately \$7,060,806, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,645,194. The covered payroll (annual payroll of active employees covered by the plan) was \$14,582,000 and the ratio of UAAL to the covered payroll was 94%.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Ultimate investment return of 7.25% (upward trend 0.25%-0.30% per year to 7.25% in FY 17/18)
2. Projected salary increases of 3.25%.
3. The annual healthcare cost trend ultimate rate is 5%. The select rates were 7.5%-7.8% depending on plans but were reduced to the ultimate rate in 2021.
4. Total inflation is assumed to increase 3% annually.
5. Amortization method: Level percentage of payroll.
6. Amortization period:
 - a. 30-year closed period for initial unfunded actuarial accrued liability (UAAL) (24 years remaining as of June, 30, 2014)
 - 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% or more than 120% of market value.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Funded Status per Valuation Date (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
1/1/2010	\$ 17,712,000	\$ 425,000	\$ 17,287,000	2.4%	\$ 13,477,000	128.3%
6/30/2011	22,121,000	1,947,000	20,174,000	8.8%	14,123,000	142.8%
6/30/2013	20,706,000	6,444,000	14,262,000	31.1%	14,582,000	97.8%

NOTE 11 - RISK MANAGEMENT

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

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

Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2013, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total Assets	\$ 44,444,445
Total Liabilities	36,354,585
Net Position	<u>\$ 8,089,860</u>
Total Operating Revenue	\$ 8,935,914
Total Operating Expense	20,413,794
Net Operating Income	(11,477,880)
General Revenue	(896,792)
Change in Net Position	(12,374,672)
Beginning Net Position	20,464,532
Ending Net Position	<u>\$ 8,089,860</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,

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2013, is as follows:

Total Assets	\$ 71,812,040
Total Liabilities	<u>45,119,273</u>
Net Position	<u>\$ 26,692,767</u>
Total Operating Revenue	\$ 10,441,407
Total Operating Expense	<u>9,999,089</u>
Net Operating Income	442,318
General Revenue	<u>100,417</u>
Change in Net Position	542,735
Beginning Net Position	<u>26,150,032</u>
Ending Net Position	<u>\$ 26,692,767</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.

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, 2014:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2012	\$ 807,383	\$ 309,658	\$ 1,117,041
Claims incurred	366,125	460,807	826,932
Claims paid	<u>(378,021)</u>	<u>(416,657)</u>	<u>(794,678)</u>
Claims payable balance - June 30, 2013	795,487	353,808	1,149,295
Claims incurred	1,007,464	148,283	1,155,747
Claims paid	<u>(892,063)</u>	<u>(154,339)</u>	<u>(1,046,402)</u>
Claims payable balance - June 30, 2014	<u>\$ 910,888</u>	<u>\$ 347,752</u>	<u>\$ 1,258,640</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 - REDEVELOPMENT AGENCY DISSOLUTION

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

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

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

During the fiscal year ended June 30, 2014, transfers of the assets and liabilities from governmental funds of the Town to fiduciary funds were reported in the government funds, government wide financial statements, and private-purpose trust fund financial statements as intergovernmental revenues and expenses netting \$88,948.

NOTE 13 - 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.

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, 2014, the Successor Agency trust fund reported a net deficit of \$11,432,550

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

Affordable Housing Cooperative Agreement

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

- a. Development of affordable housing at 224 Main St.
- b. Development of affordable housing at Dittos Lane
- c. Acquisition of property and development of affordable housing on Knowles Ave
- d. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos
- e. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- f. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

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

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Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND)

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.

TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Other taxes	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	80,000	80,000	656,881	576,881
Intergovernmental	636,869	986,948	662,544	(324,404)
Charges for services	1,020,000	717,122	766,501	49,379
Interest	-	-	52,194	52,194
Other	-	-	-	-
Total Revenues	1,736,869	1,784,070	2,138,120	354,050
EXPENDITURES				
Capital outlay	4,585,869	4,135,781	2,808,158	1,327,623
Total Expenditures	4,585,869	4,135,781	2,808,158	1,327,623
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,849,000)	(2,351,711)	(670,038)	1,681,673
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,953,746	3,003,083	2,872,062	(131,021)
Operating transfers (out)	(112,000)	(112,000)	(107,383)	4,617
Total Other Financing Sources (Uses)	2,841,746	2,891,083	2,764,679	(126,404)
CHANGE IN FUND BALANCE	\$ (7,254)	\$ 539,372	2,094,641	\$ 1,555,269
BEGINNING FUND BALANCE			6,097,182	
ENDING FUND BALANCE			\$ 8,191,823	

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds:

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

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

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

Special Revenue Funds:

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

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

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

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014**

	CAPITAL PROJECTS FUNDS				SPECIAL REVENUE FUNDS			Total Nonmajor Governmental Funds	
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping		Total Special Revenue Funds
ASSETS									
Cash & Investments	\$ 1,330,895	\$ 2,687,790	\$ 294,499	\$ 4,313,184	\$ 63,560	\$ 128,394	\$ 165,837	\$ 357,791	\$ 4,670,975
Receivables:									
Accounts	-	-	2,804	2,804	-	-	-	-	2,804
Intergovernmental Receivable	-	-	-	-	145,707	-	4,133	149,840	149,840
Total Assets	\$ 1,330,895	\$ 2,687,790	\$ 297,303	\$ 4,315,988	\$ 209,267	\$ 128,394	\$ 169,970	\$ 507,631	\$ 4,823,619
LIABILITIES									
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201	\$ 712	\$ 913	\$ 913
Accrued payroll and benefits	-	-	-	-	-	2,257	-	2,257	2,257
Total Liabilities	-	-	-	-	-	2,458	712	3,170	3,170
DEFERRED INFLOWS OF RESOURCES									
Unearned Revenue	-	-	-	-	152,158	-	-	152,158	152,158
FUND BALANCE									
Restricted for:									
Capital Projects	1,330,895	2,687,790	297,303	4,315,988	-	-	-	-	4,315,988
Committed to:									
Repairs and Maintenance	-	-	-	-	-	-	169,258	169,258	169,258
Unassigned	-	-	-	-	57,109	125,936	-	183,045	183,045
Total Fund Balances	1,330,895	2,687,790	297,303	4,315,988	57,109	125,936	169,258	352,303	4,668,291
Total Liabilities, Fund Balances and Deferred Inflows of Resources	\$ 1,330,895	\$ 2,687,790	\$ 297,303	\$ 4,315,988	\$ 209,267	\$ 128,394	\$ 169,970	\$ 507,631	\$ 4,823,619

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	116,020	-	116,020
License and permits	194,196	-	-	194,196
Intergovernmental	-	-	940,524	940,524
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Interest	25,858	52,222	5,722	83,802
Other	-	-	-	-
Total Revenues	220,054	168,242	946,246	1,334,542
EXPENDITURES				
Current:				
Parks and Public Works	-	-	-	-
Sanitation and Other	-	-	-	-
Capital Outlay	-	-	712,290	712,290
Total Expenditures	-	-	712,290	712,290
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	220,054	168,242	233,956	622,252
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)
Extraordinary Loss - Dissolution	-	-	-	-
Changes in Fund Balances	220,054	168,242	127,956	516,252
Fund Balances - Beginning of year	1,110,841	2,519,548	169,347	3,799,736
Fund Balances - End of year	\$ 1,330,895	\$ 2,687,790	\$ 297,303	\$ 4,315,988

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	SPECIAL REVENUE FUNDS				Total
	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
REVENUES					
Property Taxes	\$ -	\$ -	\$ 38,142	\$ 38,142	\$ 38,142
Other Taxes	-	-	-	-	116,020
License and permits	-	-	-	-	194,196
Intergovernmental	19,360	-	-	19,360	959,884
Charges for Services	-	328,648	-	328,648	328,648
Fines and Forfeitures	-	-	36	36	36
Interest	7,648	-	3,222	10,870	94,672
Other	12,358	-	-	12,358	12,358
Total Revenues	39,366	328,648	41,400	409,414	1,743,956
EXPENDITURES					
Current:					
Parks and Public Works	-	-	17,069	17,069	17,069
Sanitation and Other	-	322,817	-	322,817	322,817
Capital Outlay	-	-	-	-	712,290
Total Expenditures	-	322,817	17,069	339,886	1,052,176
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	39,366	5,831	24,331	69,528	691,780
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers (out)	(19,360)	-	(4,920)	(24,280)	(130,280)
Total Other Financing Sources (Uses)	(19,360)	-	(4,920)	(24,280)	(130,280)
Extraordinary Loss - Dissolution	-	-	-	-	-
Changes in Fund Balances	20,006	5,831	19,411	45,248	561,500
Fund Balances - Beginning of year	37,103	120,105	149,847	307,055	4,106,791
Fund Balances - End of year	\$ 57,109	\$ 125,936	\$ 169,258	\$ 352,303	\$ 4,668,291

(Concluded)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	60,000	19,360	(40,640)	-	-	-
Charges for services	-	-	-	332,000	328,648	(3,352)
Fines and forfeitures	-	-	-	-	-	-
Interest	8,689	7,648	(1,041)	-	-	-
Other	-	12,358	12,358	-	-	-
Total Revenues	68,689	39,366	(29,323)	332,000	328,648	(3,352)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	359,045	322,817	36,228
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	359,045	322,817	36,228
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	68,689	39,366	(29,323)	(27,045)	5,831	32,876
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(60,000)	(19,360)	40,640	-	-	-
Total Other Financing Sources (Uses)	(60,000)	(19,360)	40,640	-	-	-
Extraordinary Gain (Loss) - RDA Dissolution	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 8,689	20,006	\$ 11,317	\$ (27,045)	5,831	\$ 32,876
BEGINNING FUND BALANCE		37,103			120,105	
ENDING FUND BALANCE		\$ 57,109			\$ 125,936	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 37,760	\$ 38,142	\$ 382	\$ -	\$ -	\$ -
Other taxes	-	-	-	95,000	-	(95,000)
License and permits	-	-	-	-	194,196	194,196
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	36	36	-	-	-
Interest	1,294	3,222	1,928	10,120	25,858	15,738
Other	-	-	-	-	-	-
Total Revenues	39,054	41,400	2,346	105,120	220,054	114,934
EXPENDITURES						
Parks and public works	19,745	17,069	2,676	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	19,745	17,069	2,676	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,309	24,331	5,022	105,120	220,054	114,934
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	-	-	-
Extraordinary Gain (Loss) - RDA Dissolution	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 14,389	19,411	\$ 5,022	\$ 105,120	220,054	\$ 114,934
BEGINNING FUND BALANCE		149,847			1,110,841	
ENDING FUND BALANCE		\$ 169,258			\$ 1,330,895	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	CONSTRUCTION TAX			GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,760	\$ 38,142	\$ 382
Other taxes	15,000	116,020	101,020	-	-	-	110,000	116,020	6,020
License and permits	-	-	-	-	-	-	-	194,196	194,196
Intergovernmental	-	-	-	832,290	940,524	108,234	892,290	959,884	67,594
Charges for services	-	-	-	-	-	-	332,000	328,648	(3,352)
Fines and forfeitures	-	-	-	-	-	-	-	36	36
Interest	30,000	52,222	22,222	1,000	5,722	4,722	51,103	94,672	43,569
Other	-	-	-	-	-	-	-	12,358	12,358
Total Revenues	45,000	168,242	123,242	833,290	946,246	112,956	1,423,153	1,743,956	320,803
EXPENDITURES									
Parks and public works	-	-	-	-	-	-	19,745	17,069	2,676
Sanitation and other	-	-	-	-	-	-	359,045	322,817	36,228
Capital outlay	-	-	-	935,000	712,290	222,710	935,000	712,290	222,710
Total Expenditures	-	-	-	935,000	712,290	222,710	1,313,790	1,052,176	261,614
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	45,000	168,242	123,242	(101,710)	233,956	335,666	109,363	691,780	582,417
OTHER FINANCING SOURCES (USES)									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(106,000)	(106,000)	-	(170,920)	(130,280)	40,640
Total Other Financing Sources (Uses)	-	-	-	(106,000)	(106,000)	-	(170,920)	(130,280)	40,640
Extraordinary Gain (Loss) - RDA Dissolution	-	-	-	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 45,000	168,242	\$ 123,242	\$ (207,710)	127,956	\$ 335,666	\$ (61,557)	561,500	\$ 623,057
BEGINNING FUND BALANCE		2,519,548			169,347			4,106,791	
ENDING FUND BALANCE		\$ 2,687,790			\$ 297,303			\$ 4,668,291	

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
ASSETS								
Cash & Investments	\$ 3,475,973	\$ 2,464,639	\$ 1,458,857	\$ 147,224	\$ 2,784,745	\$ 729,173	\$ 1,391,313	\$ 12,451,924
Restricted Cash & Investments	-	33,813	-	-	-	-	-	33,813
Receivables:								
Accounts	-	-	-	-	1,041	-	434	1,475
Materials, Supplies and Deposits	-	-	-	4,573	-	23,170	-	27,743
Equipment (Net)	-	-	-	-	-	-	4,383	4,383
Total Assets	\$ 3,475,973	\$ 2,498,452	\$ 1,458,857	\$ 151,797	\$ 2,785,786	\$ 752,343	\$ 1,396,130	\$ 12,519,338
LIABILITIES								
Accounts Payable	46,141	8,057	51,436	2,504	114,417	10,095	70,308	302,958
Accrued Payroll and Benefits	189	2,809	3,110	-	9,446	1,387	5,958	22,899
Due to Other Governments	-	-	-	-	659	-	-	659
Claims Payable	-	910,888	347,752	-	-	-	-	1,258,640
Total Liabilities	\$ 46,330	\$ 921,754	\$ 402,298	\$ 2,504	\$ 124,522	\$ 11,482	\$ 76,266	\$ 1,585,156
NET POSITION								
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,383	\$ 4,383
Restricted for:								
workers compensation claims	-	33,813	-	-	-	-	-	33,813
Unrestricted	3,429,643	1,542,885	1,056,559	149,293	2,661,264	740,861	1,315,481	10,895,986
Total Net Position	\$ 3,429,643	\$ 1,576,698	\$ 1,056,559	\$ 149,293	\$ 2,661,264	\$ 740,861	\$ 1,319,864	\$ 10,934,182

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 473,929	\$ 628,637	\$ 497,185	\$ 97,758	\$ 1,035,981	\$ 528,600	\$ 1,007,014	\$ 4,269,104
Interest	-	10	-	-	-	-	-	10
Use of money and property	-	-	-	-	-	-	189,951	189,951
Other	33,050	206,763	-	299	2,412	287	123,058	365,869
Total Operating Revenues	506,979	835,410	497,185	98,057	1,038,393	528,887	1,320,023	4,824,934
OPERATING EXPENSES								
Salaries and benefits	7,245	108,835	143,723	-	426,765	148,657	214,868	1,050,093
Insurance expenses	-	283,337	357,821	-	-	-	-	641,158
Depreciation expenses	-	-	-	-	-	5,952	956	6,908
Services and supplies	2,115	1,113,455	291,116	107,977	446,061	235,211	871,088	3,067,023
Total Operating Expenses	9,360	1,505,627	792,660	107,977	872,826	389,820	1,086,912	4,765,182
Operating Income (loss)	497,619	(670,217)	(295,475)	(9,920)	165,567	139,067	233,111	59,752
Transfers (in)	-	-	-	-	-	-	-	-
Transfers (out)	(328,507)	-	-	-	-	-	(168,956)	(497,463)
Net Transfers	(328,507)	-	-	-	-	-	(168,956)	(497,463)
Change in Net Position	169,112	(670,217)	(295,475)	(9,920)	165,567	139,067	64,155	(437,711)
BEGINNING NET POSITION	3,260,531	2,246,915	1,352,034	159,213	2,495,697	601,794	1,255,709	11,371,893
ENDING NET POSITION	\$ 3,429,643	\$ 1,576,698	\$ 1,056,559	\$ 149,293	\$ 2,661,264	\$ 740,861	\$ 1,319,864	\$ 10,934,182

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$ 506,979	\$ 835,497	\$ 497,185	\$ 98,057	\$ 1,038,379	\$ 528,887	\$ 1,320,683	\$ 4,825,667
Payments to suppliers	44,026	-	-	(107,877)	(465,151)	(246,759)	(887,562)	(1,663,323)
Payments to employees	(7,246)	(108,083)	(143,227)	-	(425,220)	(150,989)	(212,229)	(1,046,994)
Claims paid	-	(1,279,298)	(603,557)	-	-	-	-	(1,882,855)
Net Cash Provided (Used) by Operating Activities	543,759	(551,884)	(249,599)	(9,820)	148,008	131,139	220,892	232,495
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(328,507)	-	-	-	-	-	(168,956)	(497,463)
Net Cash Provided (Used) by Noncapital Financing Activities	(328,507)	-	-	-	-	-	(168,956)	(497,463)
Net Increase(Decrease) in Cash and Investments	215,252	(551,884)	(249,599)	(9,820)	148,008	131,139	51,936	(264,968)
Cash and investments - beginning of year	3,260,721	3,050,336	1,708,456	157,044	2,636,737	598,034	1,339,377	12,750,705
Cash and investments - end of year	\$ 3,475,973	\$ 2,498,452	\$ 1,458,857	\$ 147,224	\$ 2,784,745	\$ 729,173	\$ 1,391,313	\$ 12,485,737
Reconciliation of Operating Income to Cash								
Flows from Operating Activities:								
Operating Income	\$ 497,619	\$ (670,217)	\$ (295,475)	\$ (9,920)	\$ 165,567	\$ 139,067	\$ 233,111	\$ 59,752
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	5,952	956	6,908
Change in assets and liabilities:								
Receivables, net	-	87	-	-	(14)	-	660	733
Other assets	-	-	-	-	-	(3,347)	-	(3,347)
Accounts payable	46,141	2,845	51,932	100	(18,204)	(10,519)	(13,835)	58,460
Accrued payroll and benefits	(1)	115,401	(6,056)	-	659	(14)	-	109,989
Cash Flows From Operating Activities	\$ 543,759	\$ (551,884)	\$ (249,599)	\$ (9,820)	\$ 148,008	\$ 131,139	\$ 220,892	\$ 232,495

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PRIVATE PURPOSE TRUST FUNDS

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

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

TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Library	RDA Successor Agency	Total
ASSETS			
Cash and investments (Note 2)	\$ 698,628	\$ 1,614,514	\$ 2,313,142
Restricted cash and investments (Note 2)	-	2,001,533	2,001,533
Loans receivable (Note 3)	-	528,769	528,769
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	2,033,854	2,033,854
 Total Assets	 <u>\$ 698,628</u>	 <u>\$ 11,436,092</u>	 <u>\$ 12,134,720</u>
LIABILITIES			
Accounts payable	\$ 3,548	\$ 551	\$ 4,099
Due to other governments	161	-	161
Interest payable	-	400,616	400,616
Long-term debt (Note 6):			
Due within one year	-	990,000	990,000
Due in more than one year	-	21,477,475	21,477,475
 Total Liabilities	 <u>\$ 3,709</u>	 <u>\$ 22,868,642</u>	 <u>\$ 22,872,351</u>
NET POSITION			
Held in trust	<u>\$ 694,919</u>	<u>\$ (11,432,550)</u>	<u>\$ (10,737,631)</u>
 Total Net Position	 <u>\$ 694,919</u>	 <u>\$ (11,432,550)</u>	 <u>\$ (10,737,631)</u>

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Library	RDA Successor Agency	Total
ADDITIONS			
Investment earnings	\$ 13,601	\$ 61,209	\$ 74,810
Gifts, bequests and endowments	36,283	-	36,283
Repayment of Town obligations	-	21,687	21,687
Other	-	4,002,641	4,002,641
Total Additions	49,884	4,085,537	4,135,421
DEDUCTIONS			
Program expenses	-	279,595	279,595
Payments to other governments	-	110,635	110,635
Interest and fiscal agency expenses of RDA	-	2,900,240	2,900,240
Library services	112,227	-	112,227
Depreciation expense	-	101,693	101,693
Total Deductions	112,227	3,392,163	3,504,390
CHANGE IN NET POSITION	(62,343)	693,374	631,031
NET POSITION - BEGINNING OF YEAR	757,262	(12,125,924)	(11,368,662)
NET POSITION - END OF YEAR	\$ 694,919	\$ (11,432,550)	\$ (10,737,631)

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

AGENCY FUND
PARKNG IMPROVEMENT DISTRICT #88

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

**TOWN OF LOS GATOS
 AGENCY FUND
 PARKING IMPROVEMENT DISTRICT #88
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
ASSETS				
Cash and investments (Note 3)	\$ 23,897	\$ 116,469	\$ 140,366	\$ -
Restricted cash and investments (Note 3)	286,447	727	108,335	178,839
Intergovernmental receivable	6,158	-	6,158	-
Total Assets	<u>\$ 316,502</u>	<u>\$ 117,196</u>	<u>\$ 254,859</u>	<u>\$ 178,839</u>
 LIABILITIES				
Due to other governments	<u>\$ 316,502</u>	<u>\$ 117,196</u>	<u>\$ 254,859</u>	<u>\$ 178,839</u>
Total Liabilities	<u>\$ 316,502</u>	<u>\$ 117,196</u>	<u>\$ 254,859</u>	<u>\$ 178,839</u>

Statistical Section

STATISTICAL (UNAUDITED)

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

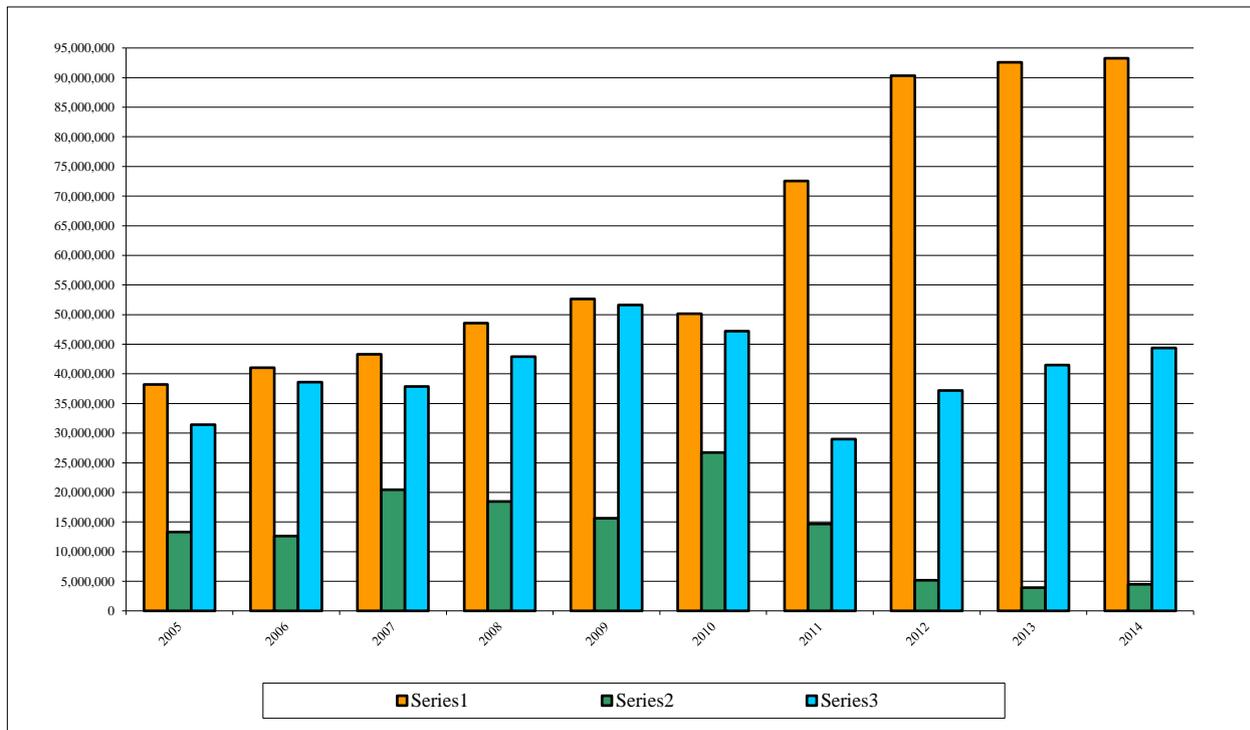
Demographic and Economic Information

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

Operating Information

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

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



Fiscal Year	Investment in Capital Assets			Total Net Position
	Net of Related Debt	Restricted	Unrestricted	
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	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628

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

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

Expenses	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Governmental Activities:										
General government	\$ 4,341,526	\$ 4,383,584	\$ 4,570,391	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804
Police department	10,524,840	11,133,362	11,556,350	12,313,637	13,467,503	13,266,849	13,495,885	14,124,798	13,731,754	14,119,786
Parks and public works	5,953,319	6,523,888	7,222,052	6,958,449	8,671,678	7,458,085	7,155,905	7,827,332	7,829,315	8,154,616
Community development	2,494,689	2,887,818	2,735,223	3,064,865	3,389,151	3,522,477	3,099,269	3,434,551	4,094,188	4,424,040
Community services	920,562	948,650	2,388,250	1,060,922	1,162,284	1,270,240	666,015	-	-	-
Library services	1,786,696	1,880,465	1,892,448	1,956,767	2,067,476	2,038,009	1,892,805	1,938,577	2,128,823	2,234,431
Sanitation	834,525	574,344	414,610	502,196	407,048	655,713	342,893	158,205	393,205	363,180
Redevelopment	2,133,008	2,093,546	2,434,935	3,360,585	2,939,550	6,992,935	16,794,022	919,821	1,277,063	21,687
Interest and fees	696,266	708,585	704,794	670,415	631,159	612,700	1,278,381	1,123,842	-	-
Total Governmental Activities	\$ 29,685,430	\$ 31,134,241	\$ 33,919,053	\$ 35,121,567	\$ 38,059,316	\$ 40,464,809	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544
Program Revenues										
Charges for Services:										
General government	\$ 1,640,632	\$ 1,981,557	\$ 2,127,670	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077
Police department	1,386,479	1,343,028	1,250,636	895,569	1,358,361	2,110,357	2,153,843	2,324,397	2,450,630	3,206,579
Parks and public works	757,790	591,079	676,095	576,107	637,933	779,300	810,022	1,215,382	3,044,401	1,550,867
Community development	2,569,923	3,070,115	2,997,419	2,954,123	2,700,614	3,404,087	3,097,192	3,448,433	4,649,444	5,156,061
Community services	182,075	-	-	-	147,895	134,366	98,803	-	-	-
Library services	61,671	62,444	61,091	60,123	56,932	57,633	39,491	37,662	50,696	51,775
Sanitation	889,948	690,314	437,794	166,660	135,000	135,000	135,000	135,000	403,294	328,648
Operating Grants and Contributions:										
General government	-	-	-	54,242	8,834	10,237	15,638	6,453	8,406	-
Police department	566,180	745,797	645,034	744,347	538,629	81,997	27,748	29,980	91,360	42,661
Parks and public works	556,121	549,873	545,432	565,857	633,923	594,775	809,272	993,827	835,724	994,096
Community services	262,554	180,897	68,912	146,236	190,447	124,287	182,683	-	-	-
Library services	14,987	11,379	16,735	11,409	10,462	13,996	10,662	109	40	14,662
Sanitation	8,023	7,857	-	41,044	39,891	25,103	9,002	-	-	-
Capital Grants and Contributions:										
General government	-	-	-	-	-	-	-	-	169,270	-
Parks and public works	867,951	931,616	1,381,631	2,020,121	1,330,638	3,074,453	2,375,759	641,811	2,757,660	2,274,879
Community development	-	-	-	-	-	-	-	-	-	19,360
Total Program Revenues	\$ 9,764,334	\$ 10,165,957	\$ 10,208,449	\$ 9,385,751	\$ 8,944,968	\$ 11,883,363	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665
General Revenues										
Property taxes	\$ 11,931,215	\$ 13,810,457	\$ 16,082,348	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312
Sales taxes	7,904,130	8,655,566	9,253,891	9,345,432	8,487,000	8,317,217	9,971,409	9,889,100	8,757,428	8,029,571
Other taxes	1,864,997	2,247,997	2,327,516	2,904,908	2,664,698	2,623,622	2,906,264	3,698,753	3,324,791	3,718,405
Motor vehicle in lieu	314,041	666,494	194,104	137,330	101,265	92,595	139,814	15,238	15,790	13,068
Investment earnings	1,286,433	1,922,819	3,607,966	4,190,951	2,949,119	1,155,929	760,905	331,420	(133,375)	772,200
Loss on disposal of capital assets	-	(3,592)	-	-	-	-	-	-	-	-
Sale of property	(6,378)	-	-	-	6,525,000	-	(870,127)	-	54,425	-
Miscellaneous	378,693	2,850,836	334,818	9,842	66,802	52,459	41,943	2,275,160	1,154,647	350,468
Extraordinary gain (loss) dissolution of RDA	-	-	-	-	-	-	-	11,864,453	295,101	-
Total General Revenues	\$ 23,673,131	\$ 30,150,578	\$ 31,800,643	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024
Change in Net Position	\$ 3,752,035	\$ 9,182,294	\$ 8,090,039	\$ 8,163,698	\$ 10,022,597	\$ 2,516,457	\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145

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

	Fiscal Year									
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
General Fund										
Reserved	\$ 2,097,545	\$ 2,128,873	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -	\$ -
Unreserved	12,144,819	18,000,209	16,406,211	17,236,569	16,861,752	18,594,984	-	-	-	-
Nonspendable	-	-	-	-	-	-	1,500,000	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	21,806,781	21,992,886	20,758,156	23,791,749
Unassigned	-	-	-	-	-	-	2,433,556	4,019,409	7,502,446	1,363,376
Total general fund	\$ 14,242,364	\$ 20,129,082	\$ 21,138,605	\$ 19,284,830	\$ 25,027,359	\$ 23,086,573	\$ 25,740,337	\$ 26,012,295	\$ 28,260,602	\$ 25,155,125
All Other Governmental Funds										
Reserved	\$ 12,844,667	\$ 12,088,367	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	962,032	1,123,335	836,191	1,030,161	522,105	225,509	-	-	-	-
Capital project funds	3,853,747	3,842,580	8,169,857	11,719,905	11,203,521	24,454,347	-	-	-	-
Debt service funds	4,032,770	4,960,030	3,849,382	5,747,185	7,526,557	6,953,732	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	14,764,334	5,167,236	3,949,583	4,485,246
Assigned	-	-	-	-	-	-	4,786,547	5,389,674	6,097,182	8,191,823
Unassigned	-	-	-	-	-	-	(23,889)	107,107	157,208	183,045
Total all other governmental funds	\$ 21,693,216	\$ 22,014,312	\$ 28,675,775	\$ 33,414,880	\$ 34,517,310	\$ 42,158,972	\$ 19,526,992	\$ 10,664,017	\$ 10,203,973	\$ 12,860,114

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

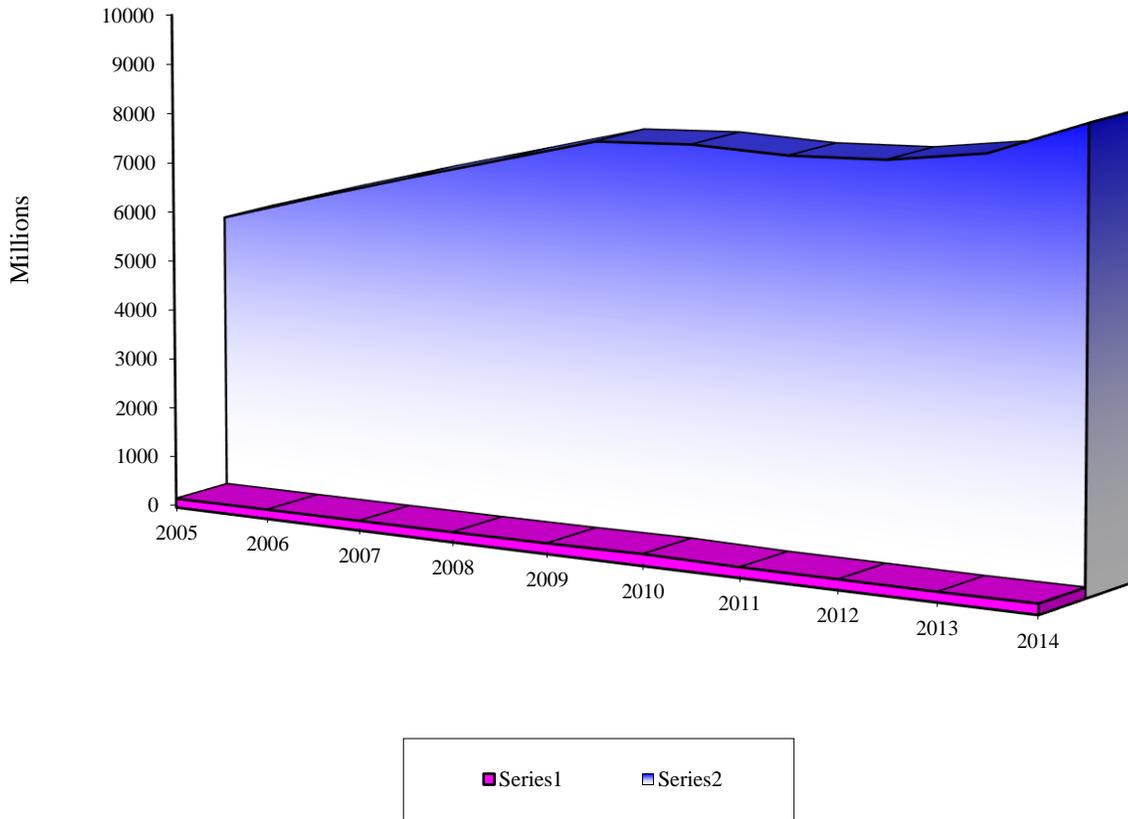
Schedule 4

	Fiscal Year									
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenues:										
Taxes	\$ 22,099,118	\$ 25,112,221	\$ 27,888,072	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393
Intergovernmental	4,242,451	3,993,032	4,085,983	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191	2,440,127
Charges for Service	3,062,960	3,529,178	4,269,571	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234	5,837,581
Licenses & Permits	2,417,204	2,637,977	2,705,028	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871	5,343,265
Investment income	1,828,216	4,975,513	4,179,736	4,190,955	2,949,120	1,174,203	691,022	291,484	(133,380)	772,164
Fines and Forfeitures	580,937	1,005,773	561,665	369,292	618,771	662,699	737,903	809,790	688,125	795,720
Use of Property					60,749	51,948	38,502	38,974	38,910	37,741
Other	1,597	232,694	110,486	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584	3,648,277
Total revenues	34,232,483	41,486,388	43,800,541	44,976,665	43,100,649	45,439,565	46,245,148	44,692,043	42,928,334	42,350,268
Expenditures:										
Current										
Public safety	10,506,167	11,706,091	11,576,850	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032	13,742,189
Public Works	4,399,171	4,742,401	4,956,451	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197	5,611,283
Community Development	2,527,730	2,936,730	2,776,231	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832	4,335,599
Community Services	933,759	950,333	2,395,429	1,056,835	1,149,290	1,261,981	663,645	-	-	-
Library Services	1,770,991	1,876,022	1,904,900	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479	2,055,069	2,131,438
Sanitation & Other	848,547	551,164	387,674	470,660	375,483	642,512	314,899	116,607	359,725	322,817
General Government	4,372,991	4,358,853	4,586,513	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444	8,499,854
Redevelopment	2,084,767	2,573,514	2,966,132	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063	21,687
Capital outlay	2,142,212	4,682,848	4,689,187	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653	4,097,662
Debt service										
Principal repayment	385,000	400,000	414,167	429,167	445,000	465,000	485,000	934,167	-	-
Interest and fiscal charges	698,906	714,079	711,346	676,913	638,221	620,356	1,019,881	1,143,185	-	-
Total expenditures	30,670,241	35,492,035	37,364,880	42,195,302	43,419,514	56,733,966	66,606,303	48,317,986	41,814,015	38,762,529
Excess (deficiency) of revenues over (under) expenditures	3,562,242	5,994,353	6,435,661	2,781,363	(318,865)	(11,294,401)	(20,361,155)	(3,625,943)	1,114,319	3,587,739
Other financing sources(uses):										
Debt Issuance	-	-	-	-	-	16,428,095	-	-	-	-
Transfers in	2,130,315	2,854,245	10,611,169	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881	3,418,872
Transfers out	(2,130,315)	(2,640,785)	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)
Proceeds from issuance of debt	-	-	-	-	-	-	-	-	-	-
Total other financing sources(uses)	-	213,460	1,235,322	103,970	638,823	16,995,276	382,939	73,546	378,031	497,463
Special item:										
Sale of property	-	-	-	-	6,525,000	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-	-	-	(5,038,620)	295,913	-
Prepayment of pension obligations	-	-	-	-	-	-	-	-	-	(4,534,538)
Net change in fund balances	\$ 3,562,242	\$ 6,207,813	\$ 7,670,983	\$ 2,885,333	\$ 6,844,958	\$ 5,700,875	\$ (19,978,216)	\$ (8,591,017)	\$ 1,788,263	\$ (449,336)
Debt service as a percentage of non capital expenditures	3.80%	3.62%	3.44%	3.30%	3.04%	2.67%	2.96%	5.56%	0.00%	0.00%

1 Increase due to SERAF payment to State in the amount of \$2.2M and increased Pass Through Payments.

2 The increase in capital outlay is due to purchases of land for low-moderate housing projects in the amount of \$4.3M and purchase of land for a sports park in the amount of \$3.1M.

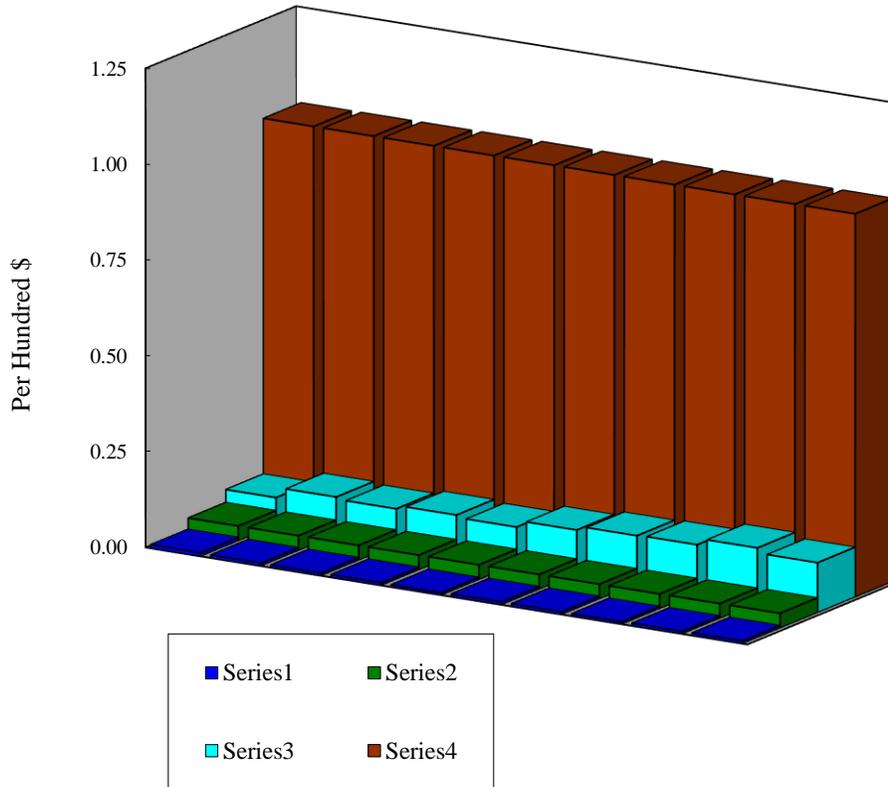
Town of Los Gatos
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years



Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2005	179,611,684	2.23%	5,654,906,203	7.54%	5,834,517,887	22,619,624,812	1.0475
2006	186,694,066	3.94%	6,259,830,939	10.70%	6,446,525,005	25,039,323,756	1.0480
2007	194,195,209	4.02%	6,840,335,733	9.27%	7,034,530,942	27,361,342,932	1.0466
2008	201,629,315	3.83%	7,392,958,751	8.08%	7,594,588,066	29,571,835,004	1.0460
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0459
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0449
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0462
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0460
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0457
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0458

Source: Santa Clara County Assessed Value Report

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



<u>Fiscal Year</u>	<u>Basic County Wide Levy</u>	<u>County Retirement Levy</u>	<u>Santa Clara Valley Water District</u>	<u>County Direct Rate Subtotal</u>	<u>School District Bonds and Loans</u>	<u>Total</u>
2005	1.0000	0.0388	0.0092	1.0480	0.0726	1.1206
2006	1.0000	0.0388	0.0078	1.0466	0.0996	1.1462
2007	1.0000	0.0388	0.0072	1.0460	0.0941	1.1401
2008	1.0000	0.0388	0.0071	1.0459	0.1032	1.1491
2009	1.0000	0.0388	0.0061	1.0449	0.0970	1.1419
2010	1.0000	0.0388	0.0074	1.0462	0.1147	1.1609
2011	1.0000	0.0388	0.0072	1.0460	0.1252	1.1712
2012	1.0000	0.0388	0.0064	1.0452	0.1269	1.1721
2013	1.0000	0.0388	0.0069	1.0457	0.1440	1.1897
2014	1.0000	0.0388	0.0070	1.0458	0.1307	1.1765

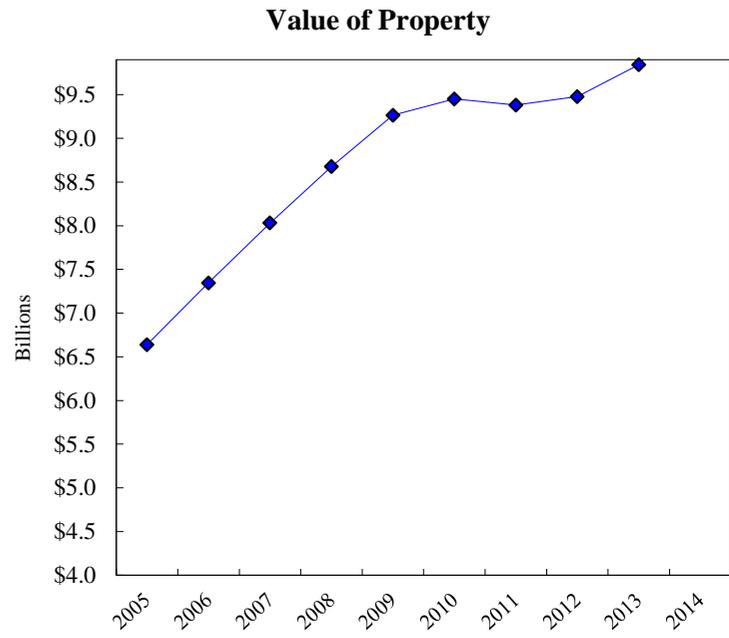
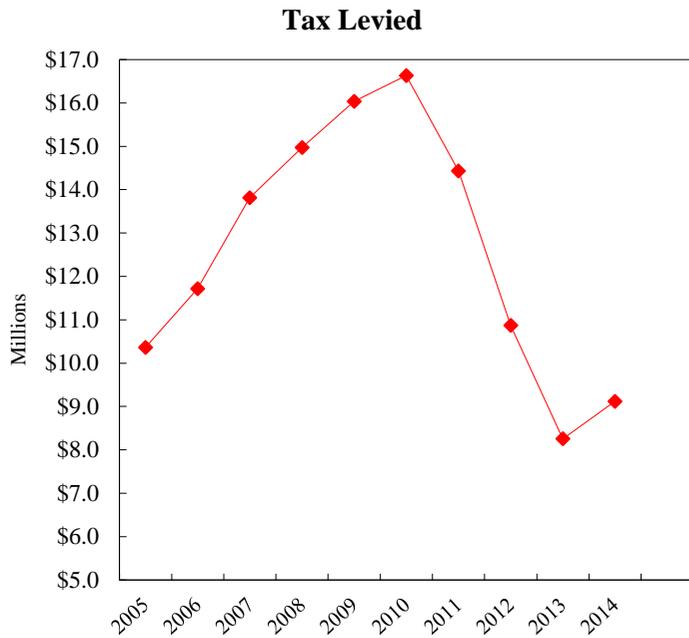
Town of Los Gatos
Principle Property Tax Payers
Last Five Fiscal Years *

Schedule 7

ASSESSEE NAME	2009/10		2010/11		2011/12		2012/13		2013/14	
	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	\$ 156,934,561	1.94%	\$ 150,781,092	1.87%	\$ 157,554,525	1.93%	\$ 157,559,245	1.86%	\$ 169,809,676	2.01%
Boccardo Corporation	37,747,020	0.47%	36,839,021	0.46%	37,173,877	0.46%	37,550,368	0.44%	38,617,912	0.46%
Knowles Los Gatos LLC	32,000,000	0.40%	45,778,757	0.57%	46,123,468	0.57%	47,045,934	0.56%	47,986,850	0.57%
SRI Old Town LLC	29,626,371	0.37%	29,556,155	0.37%	29,778,712	0.37%	30,374,286	0.36%	30,981,771	0.37%
CH Realty IV Downing LP	29,391,300	0.37%	19,000,000	0.24%	19,143,068	0.23%	19,525,927	0.23%	19,916,443	0.24%
Hercules Holding II LLC	25,886,805	0.33%	25,865,452	0.32%	-	0.00%	-	0.00%	-	0.00%
Health Care REIT Inc,	24,969,600	0.31%	19,720,749	0.25%	19,869,245	0.24%	19,223,348	0.23%	20,671,960	0.24%
750 University LLC	21,000,000	0.26%	20,950,229	0.26%	-	0.00%	12,137,999	0.14%	18,600,000	0.22%
Grosvenor USA Ltd.	20,958,858	0.26%	20,909,185	0.26%	21,066,630	0.26%	22,437,962	0.27%	22,886,720	0.27%
Alberto Way Holdings LLC	20,927,018	0.26%	20,877,418	0.26%	21,034,623	0.26%	23,145,064	0.27%	23,607,964	0.28%
D&K Los Gatos LLC	20,400,000	0.26%	20,351,651	0.25%	15,284,324	0.19%	15,590,010	0.18%	15,901,809	0.19%
CHL Ventures LP	20,162,950	0.25%	20,115,163	0.25%	20,266,630	0.25%	20,671,962	0.24%	-	0.00%
San Jose Water Works	20,162,848	0.25%	23,313,978	0.29%	29,369,137	0.36%	30,882,009	0.36%	33,626,381	0.40%
Toll House Hotel LLC	18,986,145	0.24%	15,848,626	0.20%	15,696,089	0.19%	-	0.00%	-	0.00%
Grade Way Associations VI	14,434,261	0.18%	-	0.00%	-	0.00%	14,798,651	0.17%	15,094,623	0.18%
Lyon Baytree Apartments LLC	14,161,525	0.18%	14,111,407	0.18%	14,177,039	0.17%	14,430,123	0.17%	14,674,716	0.17%
KSL Capital Partners	14,030,096	0.18%	39,960,114	0.50%	41,698,751	0.51%	42,532,721	0.50%	43,383,370	0.51%
Los Gatos Hotel Corp.	13,906,273	0.17%	15,978,009	0.20%	15,683,979	0.19%	15,617,134	0.18%	18,134,182	0.21%
David A. and Shari Flick	-	0.00%	14,614,447	0.18%	14,724,487	0.18%	15,018,971	0.18%	-	0.00%
Pter R. Hofman	-	0.00%	13,247,124	0.16%	-	0.00%	-	0.00%	-	0.00%
Paul H. Roskoph	12,696,924	0.16%	-	0.00%	12,926,457	0.16%	13,416,452	0.16%	-	0.00%
Elizabeth K. Dodson	12,617,140	0.16%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Good Samaritan Hospital LP	-	0.00%	-	0.00%	19,372,795	0.24%	19,530,183	0.23%	19,710,897	0.23%
Grade Way Associates VI	-	0.00%	14,400,050	0.18%	14,508,482	0.18%	-	0.00%	-	0.00%
LG Business Park LLC	-	0.00%	-	0.00%	18,342,931	0.23%	-	0.00%	47,276,977	0.56%
Green Eyes LLC	-	0.00%	-	0.00%	-	0.00%	12,542,555	0.15%	12,793,404	0.15%
Go and Kay Karou Sasaki									22,752,809	0.27%
Ann R. Desantis									13,823,779	0.16%
Total - Principal taxpayers	<u>\$ 560,999,695</u>	<u>6.95%</u>	<u>\$ 582,218,627</u>	<u>7.24%</u>	<u>\$ 583,795,249</u>	<u>7.16%</u>	<u>\$ 584,030,904</u>	<u>6.90%</u>	<u>\$ 650,252,243</u>	<u>7.68%</u>
Total - All real properties assessed by the Town (1)	<u>\$ 8,075,202,207</u>		<u>\$ 8,043,793,200</u>		<u>\$ 8,151,530,237</u>		<u>\$ 8,464,491,112</u>		<u>\$ 9,237,887,980</u>	

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

Source Data: California Municipal Statistics, Inc.



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
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
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,167,752,021	10,630,648,423

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

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

Schedule 9

Fiscal Year	Governmental Activities			Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation				
2005	1,445,000	10,300,000		11,745,000	11,745,000	8.7%	405.49
2006	1,270,000	10,075,000		11,345,000	11,345,000	7.9%	389.65
2007	1,085,000	9,845,000		10,930,000	10,930,000	7.3%	372.25
2008	890,000	9,610,000		10,500,000	10,500,000	6.2%	348.03
2009	685,000	9,370,000		10,055,000	10,055,000	5.5%	329.70
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	19.4%	820.24
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72
2012	-	-	-	-	-	0.0%	0.00
2013	-	-	-	-	-	0.0%	0.00
2014	-	-	-	-	-	0.0%	0.00

¹⁾ Debt was transferred to the Successor Agency trust fund as a part of the RDA dissolution

2013/14 Assessed Valuation:	\$9,462,896,402		
			Estimated Share of Direct and Overlapping Debt at June 30, 2013
DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable	(1)	Debt at June 30, 2013
Overlapping Tax & Assessment Debt			
Santa Clara County	2.829%		\$ 804,700,000
West Valley-Mission Community College District	10.007%		\$ 294,322,663
Campbell Union High School District	8.265%		\$ 152,410,000
Los Gatos-Saratoga Joint Union High School District	33.530%		\$ 41,805,000
Cambrian School District	0.405%		\$ 15,164,944
Campbell Union High School District	8.683%		\$ 160,685,056
Los Gatos Union School District	70.352%		\$ 102,870,000
Saratoga Union School District	0.040%		\$ 40,224,483
Union School District	20.629%		\$ 64,636,708
Santa Clara Valley Water District Benefit Assessment District	2.829%		\$ 115,045,000
Total Overlapping Tax and Assesmet Debt			\$ 181,821,158
Overlapping General Fund Debt			
Santa Clara County General Fund Obligations	2.829%		\$ 757,814,320
Santa Clara County Pension Obligations	2.829%		\$ 375,419,144
Santa Clara County Board of Education Certificates of Participation	2.829%		\$ 9,730,000
West Valley-Mission Community College District General Fund Obligations	10.007%		\$ 65,095,000
Campbell Union High School District General Fund Obligations	8.265%		\$ 10,159,891
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	33.530%		\$ 7,925,000
Campbell Union School District General Fund Obligations	8.683%		\$ 3,500,000
Saratoga Union School District Certificates of Participation	0.040%		\$ 5,240,000
Santa Clara County Vector Control District Certificates of Participation	2.829%		\$ 3,275,000
Midpeninsula Regional Open Space Park District General Fund Obligations	4.889%		\$ 133,209,717
Total Gross Overlapping General Fund Debt			\$ 49,256,736
Less: Santa Clara County Supported Obligations			\$ 15,092,620
Total Overlapping General Fund Debt			\$ 34,164,116
Overlapping Tax Increment Debt (Successor Agency)			
Town of Los Gatos Certificated of Participations			\$ 21,865,000
Total of Overlapping Tax Increment Debt			\$ 21,865,000
Total Direct Debt			\$ -
Total Gross Overlapping Debt			\$ 252,942,987
Total Net Overlapping Debt			\$ 237,850,274
Gross Combined Total Debt		(2)	\$ 252,942,894
Net Combined Total Debt			\$ 237,850,274

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

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

Ratios to 2013/14 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.92%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt: 0.00%

Gross Combined Total Debt: 2.67%

Net Combined Total Debt: 2.51%

Ratios to redevelopment Incremental Valuation (\$1,007,918,423):

Total Overlapping Tax Increment Debt: 2.17%

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 2014/15

Assessed Value	9,195,026,300
Debt limit	1,379,253,945
Debt applicable to limit:	-
Legal Debt Margin	<u>1,379,253,945</u>

	Fiscal Year									
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Debt limit	\$ 788,790	\$ 842,159	\$ 932,872	\$ 1,019,970	\$ 1,102,766	\$ 1,185,727	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,379,254
Debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<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>	<u>\$ 1,195,035</u>	<u>\$ 1,216,131</u>	<u>\$ 1,379,254</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

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

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

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2005	28,965	\$ 1,508,526	\$ 52,081	44.04	5,610	5.5%
2006	29,116	1,644,239	56,472	44.19	5,718	4.7%
2007	29,362	1,764,862	60,107	44.64	5,742	4.8%
2008	30,170	1,781,780	59,058	44.86	5,870	6.0%
2009	30,497	1,701,153	55,781	45.35	6,006	11.8%
2010	30,802	1,787,070	58,018	45.09	6,100	11.3%
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.80	6,420	6.8%
2014	30,532	2,274,542	74,497	45.80	6,522	5.7%

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
- (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.

Major Employers	2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town	
	Employees	Employment												
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	12.89%	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%	2,000	13.29%	2,000	13.29%
El Camino Hospital, Los Gatos	-	0.00%	800	4.92%	700	4.26%	700	4.41%	700	4.86%	700	4.65%	700	4.65%
Community Hospital of Los Gatos	730	4.70%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Los Gatos Union School District	300	1.93%	300	1.85%	300	1.83%	300	1.89%	275	1.91%	275	1.83%	237	1.57%
Los Gatos-Saratoga High School District	300	1.93%	300	1.85%	300	1.83%	300	1.89%	270	1.88%	270	1.79%	256	1.70%
Netflix	280	1.80%	-	0.00%	280	1.70%	800	5.04%	800	5.56%	900	5.98%	825	5.48%
Safeway	250	1.61%	200	1.23%	250	1.52%	250	1.57%	250	1.74%	250	1.66%	250	1.66%
Alain Pinel Realtors	220	1.42%	-	0.00%	220	1.34%	220	1.39%	150	1.04%	150	1.00%	156	1.04%
Verizon	200	1.29%	200	1.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.29%	200	1.23%	200	1.22%	200	1.26%	200	1.39%	200	1.33%	295	1.96%
Town of Los Gatos	135	0.87%	189	1.16%	148	0.90%	138	0.87%	136	0.94%	138	0.92%	144	0.96%

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

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

Schedule 14

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30</u>									
	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
General Government	21.35	19.95	20.75	20.50	19.95	18.35	18.90	20.15	20.40	20.73
Police	65.30	62.00	62.00	61.00	61.00	60.00	59.50	60.50	58.00	57.50
Culture and Recreation	4.25	4.25	4.25	5.25	5.25	5.25	3.25	-	-	-
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1	-	-
Library	11.10	10.35	10.35	10.35	10.35	10.35	8.60	8.60	8.60	10.30
Planning	19.60	18.80	18.80	18.80	18.80	17.80	15.00	16.00	17.50	17.50
Public Works	37.00	37.00	34.00	34.00	37.00	35.00	32.50	32.00	31.00	31.50
Total	159.60	153.35	151.15	150.90	153.35	147.75	138.75	138.25	135.50	137.53

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

FUNCTION/PROGRAM

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

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

*

Source: Town of Los Gatos, Finance Department

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

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

Source: Town of Los Gatos, Finance Department

Other Independent Auditor's Reports



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Los Gatos (the "Town") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 24, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



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

Purpose of this Report

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

C & A LLP

San Jose, California
January 24, 2015