



TOWN OF LOS GATOS  
SPECIAL MEETING  
TOWN COUNCIL FINANCE COMMITTEE

*Finance Committee - (2016)*

*Barbara Spector, Council Member  
Steve Leonardis, Council Member*

AGENDA  
TOWN COUNCIL CHAMBERS  
110 EAST MAIN STREET  
November 21, 2016 - 4:00 P.M.

**MEETING CALLED TO ORDER**

**ROLL CALL**

**VERBAL COMMUNICATIONS** *(Three minute time limit)*

**AGENDA ITEMS**

*(The reports for each item are provided in the order of the agenda)*

1. Approval of April 28, 2016 Council Finance Committee Meeting Minutes
2. Recommendation to the Town Council to Receive the First Quarter Investment Report (July through September 2016) for Fiscal Year 2016/17 and Accept the Reconciled Demand Account Balances (February through June 2016) as Restated for June 30, 2016
3. Recommendation to the Town Council to Receive the Fiscal Year 2016/17 First Quarter Budget Performance and Status Report for the Period July 1, 2016 – September 30, 2016

**ADJOURNMENT**

cc: Post *(also posted on Town Web)*  
Town Council

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Town Manager's Office at (408) 354-6834. Notification 48 hours before the meeting will enable the Town to make reasonable arrangements to ensure accessibility to this meeting [28 CFR §35.102-35.104]



**TOWN OF LOS GATOS  
FINANCE COMMITTEE REPORT**

MEETING DATE: 11/21/2016  
VERBAL COMMUNICATION

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DATE: NOVEMBER 21, 2016  
TO: COUNCIL FINANCE COMMITTEE  
FROM: LAUREL PREVETTI, TOWN MANAGER

REMARKS:

Attachment 1 contains correspondence received addressing the Finance Committee unrelated to the agenda topics.

Attachments

1. Public comment received before 11 a.m. on November 21, 2016.

PREPARED BY: STEPHEN CONWAY  
FINANCE DIRECTOR

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Reviewed by: Town Manager, Interim Assistant Town Manager

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November 20, 2016

**RE: Misstatement of the 2015 CAFR**

Dear Council Finance Committee,

After a number of months of working with Mr. Conway, Mr. Conway now agrees with me that the Town did not properly apply GASB 54 to the 2015 CAFR. GASB 54 was issued in February 2009 and became effective for CAFRs ending June 30, 2011. I have attached a summary statement of GASB 54, which specifically addresses the goals of GASB 54, the disclosure requirements placed on governments, and the importance of proper classification of stabilization and economic uncertainty arrangements.

The AICPA defines a misstatement for purposes of generally accepted auditing standards as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

In the case of the Town's 2015 CAFR, the non-spendable, restricted, committed, assigned and unassigned general fund balance categories have been incorrectly classified and presented, and do not comply with the applicable financial reporting framework as defined by GASB 54. Therefore, the 2015 CAFR contains a misstatement that needs to be addressed.

So, what should be done at this point? Here are my thoughts/suggestions that hopefully Council Finance Committee will immediately address.

**Immediately determine whether the financial statements need revision and how management intends to address the misstatement**

The preparation and fair presentation of the Town's financial statements in accordance with generally accepted accounting principles is the responsibility of Town management. Ultimately the Town Council is charged with the overall governance and oversight to ensure that management is taking the necessary steps to comply with these duties. Contrary to Mr. Conway's assertion to me that there is no requirement to re-issue the June 30, 2015 CAFR, this is a decision that can only be made by those charged with governance, namely the Town Council. After all, the Town Council passed a resolution officially accepting the 2015 CAFR in March, 2016.

I would suggest that the Town Council meet as quickly as possible with the independent auditors, Chavan and Associates, and review with them the relevant facts regarding the misstatement. Statement of Auditing Standard AU-C Section 560.15 clearly outlines the responsibility of the auditor including discussing the matter with those charged with governance (i.e. the Town Council) and determining whether the financial statements need revision and, if so, how management intends to address the matter in the financial statements.

Mr. Conway has also asserted to me that there is no requirement to re-issue the June 30, 2016 CAFR because the issuance of the new CAFR is "imminent". **This may not be correct.** If the Town maintains its traditional date for releasing the CAFR (i.e. approval by the Town Council passing a resolution), which

historically has occurred in early March, the release date is over 90 days away. This does not meet any reasonable definition of "imminent".

Setting this aside, the larger concern I have arises from the public statements made by then Mayor Spector and Mr. Conway concerning the accuracy of the 2015 CAFR at the November 1, 2016 Town Council meeting. To even the most casual observer, the very clear implication of all of the statements made was that the CAFR is free of misstatements. Unfortunately at that time, Mr. Conway was fully aware of one misstatement in the 2015 CAFR regarding the classification of compensated absences. Subsequent to the November 1 Town Council meeting, Mr. Conway became aware of additional misstatements that total \$10,800,000 being improperly classified.

Given this fact pattern, to not notify anyone who is now relying or who is likely to rely on these financial statements of such, would appear to be a violation of AU-C 560. Again, I am not an attorney but it seems to me that the Town may also have a legal obligation to immediately notify anyone using the 2015 CAFR that there is a misstatement given the very recent public statements made then Mayor Spector and Mr. Conway.

**It is the responsibility of the governing body to determine the appropriate next steps not the Town Staff.**

**Determine the correct reporting of the 2015 general fund balance for the non-spendable, restricted, committed, assigned and unassigned categories.**

It is still unclear to me if Staff fully understands the proper amounts to be classified as non-spendable, restricted, committed, assigned and unassigned. Again, my conclusions are solely based on the information that I have been provided by Staff. It is completely possible that I may have misunderstood the information provided.

Let me start with the compensated absences and the proper classification as "assigned". Mr. Conway has agreed that this amount should be included in the "assigned" category, which is consistent with prior year's treatment. Mr. Conway also confirmed to me that the balance of Compensated Absences Fund (Fund 961) at June 30, 2015 was \$2,176,892. As such this is the amount which should be classified in the "assigned" category.

Mr. Conway also confirmed to me that there is a \$159,000 long term loan receivable to the "Open Door Rehab" that was not considered "currently available" and was thus omitted from the general fund CAFR. To reconcile to the \$2,017,892 that was reported in the "unassigned" category, Staff reduced the Compensated Absences fund by the amount of this long term receivable, thus netting to the reported \$2,017,892. This is clearly incorrect accounting.

While I am not entirely sure of this, I believe the proper accounting would be to record in the fund balance the long term receivable of \$159,000 as "non-spendable", record in the fund balance the full \$2,176,892 of compensated absences as "assigned" and to balance the general fund balance with a negative amount of \$318,000 as "unassigned". This needs to be clarified.

Regarding the Economic Uncertainty and the Revenue Stabilization amounts, I agree that the appropriate classification should be "committed". By moving these items from the "assigned" category,

that category will be reduced by a total of \$10,800,000 with the “committed” category increasing by \$10,800,000.

In summary, management should prepare for the Town Council a revised 2015 government funds balance sheet which reflects the proper implementation of GASB 54. The Town Council will need this to fully understand the impact of the misstatements and to help in their decision as to whether or not revised financial statements should be issued.

**Have the Town Manager, the Director of Finance and Town Attorney attend a continuing education program to ensure everyone understands the requirements of GASB 54**

It is apparent to me, having met with every member of the Town Council, that the governing body responsible for oversight does not have an appropriate understanding of the requirements of GASB 54. GASB 54 requires governments to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned and unassigned are considered to have been spent. The disclosure of these policies in the notes to the financial statements is required.

**I believe that the Town Council has not been properly informed of GASB 54 and furthermore is potentially unaware of the existing GASB 54 Fund Balance Policy that the Town adopted in June 2012.** I have attached a copy of that policy for your review (see attached GASB 54 Fund Balance Policy).

This has led to the Town Council reclassifying approximately \$1m that had been previously assigned to post-retirement medical and compensated absences to a capital improvement program without any meaningful discussion as to why the intent to spend had changed.

Another example is the resolution that was passed on May 17, 2016 to establish a new general fund reserve policy does not comply with GASB 54 (see attached copy – general fund reserve policy). The policy states that the general fund reserves are classified into two categories – restricted and designated. **This does not conform to the classifications outlined in GASB 54 nor does it comply with the Town’s existing GASB 54 Fund Balance Policy.** The May 17, 2016 policy repeatedly references “designated reserves” but gives us no information as to whether these reserves are restricted, committed, assigned or unassigned. **It is clear that the two policies are in conflict with one another and provides the Town Council with no meaningful guidance as to how to classify fund balances that can be consistently applied.**

Furthermore, the May 17, 2016 policy is unclear as to whether the Town Council intended for the CalPERS Reserve to be committed as opposed to merely assigned. This needs to be addressed to avoid any confusion going forward.

In conclusion, it is constructive that Mr. Conway now agrees with me regarding the 2015 CAFR and the proper implementation of GASB 54. I would only urge you to take immediate action with regard to my three recommendations.

Sincerely,

Phil Koen

## COUNCIL POLICY TOWN OF LOS GATOS

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Subject: GASB 54 FUND BALANCE POLICY

Page: 1 of 3

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Approved:



Effective Date: June 4, 2012

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### **PURPOSE**

To outline the policies and procedures adopted by the Town Council regarding provisions for identifying and classifying fund balances in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54.

### **BACKGROUND**

Fund balance is the difference between the assets and liabilities reported in a governmental fund. As outlined in Governmental Accounting Standards Board (GASB) Statement No. 54, there are five separate components of fund balance. Each separate component is identified by the extent to which the City is bound to honor the constraints on the specific purposes on which amounts can be spent.

- Non-spendable fund balance (inherently unspendable)
- Restricted fund balance (external limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources-no restrictions)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. This policy is focused on the financial reporting of previously unrestricted fund balance, or the last three components listed above. All components further defined below and reflected per this policy are in accordance with GASB 54.

### **POLICY**

#### **Committed Fund Balance**

The Town Council, as the Town's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. Town Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently. This category was previously reported as "unreserved, designated" under the old standard.

The following funds are committed:

- Capital Outlay
- Debt Service
- Advances to Other Funds
- Repairs and Maintenance
- Low & Moderate Housing

Assigned Fund Balance

The Town Council delegates the authority to assign fund balance to the Town Manager, for intended specific purposes, to be reported to the full Council. The following assignments are established and may be modified by the Town Manager or his/her designee as deemed appropriate. This category was previously reported as “unreserved” under the old standard:

- Vasona Land Sale Reserve
- Open Space Reserve
- Post-Retirement Medical Reserve
- Parking Reserve
- Market Fluctuations Reserve
- Manager's Contingency Reserve
- Productivity Reserve
- Sustainability Reserve
- Catastrophic Reserve
- Capital and Special Projects Reserve
- Carryover Reserve
- Comcast PEG Fund
- Budget Stabilization Reserve
- Special Studies Reserve
- Debt Service Reserve
- Year End Budget Savings
- Special Revenue Fund
- Compensated Absences Reserve

Unassigned Fund Balance

These are residual positive new resources in the General Fund in excess of what can properly be classified in one of the other four categories. The General Fund may only report a positive unassigned balance. Conversely, any governmental fund in a negative (deficit) position could report a negative amount of unassigned fund balance.

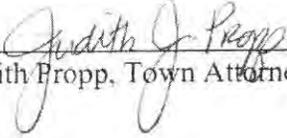
**Fund Balance Classification:**

The accounting policies of the Town considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Town considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

**Annual Reporting and Periodic Review:**

Annually, after the completion of the Town's Comprehensive Annual Financial Report, the Finance Director or designee shall prepare and present a Summary of Fund Balance as part of the Financial Reporting and Town Annual Budget process. At least every two years, the Town Council will affirm or revise this Policy (usually during the budget process).

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Judith Propp, Town Attorney

**COUNCIL POLICY  
TOWN OF LOS GATOS**

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Subject: General Fund Reserve Policy

Pages: 3

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Approved:

Effective Date:  
May 16, 2011

Revised Date:  
May 17, 2016

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**BACKGROUND**

General Fund reserves are classified into two categories: Restricted and Designated. Restricted reserves are those which are restricted and not considered available due to financial, accounting, or legal restrictions. Designated reserves are established by Council policy for an intended purpose and are available for use per Council direction.

**GUIDING PRINCIPLES**

Following sound financial practices and adhering to the Government Finance Officers' of American (GFOA) recommendations, the Town's designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Volatility of revenue structure
- Changes in political environment
- Frequency of operating surpluses/deficits
- Cash flow management practices

**PURPOSE**

The purpose of this policy is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the financial impacts associated with a disaster or catastrophic event;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

**POLICY**

*Reserve Level*

The Town currently sets aside funds into ~~three~~ four key designated reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, unfunded pension liabilities, and key infrastructure and capital projects. These include the Catastrophic Reserve, Budget Stabilization Reserve, CalPERS Reserve and Capital and Special Projects

Reserve.

The Town commits to maintaining these reserves at a minimum of 25% of General Fund ongoing operating expenditures (minus one-time expenditures), equally divided between the Catastrophic Reserve (12.5%) and Budget Stabilization Reserve (12.5%), excluding the CalPERS Reserve and the Capital and Special Projects Reserve. The General Fund Reserve Policy is to be reviewed by the Town Council as part of the annual operating budget review and adoption process. Appropriations of General Fund reserves require formal Council authorization.

Should a catastrophic disaster or loss of the Town's single highest source of sales tax revenue occur, the required reserve level should be adequate to meet the Town's immediate financial needs. For example, in the event of natural disaster, the Catastrophic Reserve would provide necessary coverage for basic operating expenses, including salary and benefits for safety and non-safety Town employees, while still meeting debt service obligations for approximately 60 days. This time frame would enable the Town to explore other available cash alternatives, including the use of internal service funds. Likewise, should the Town experience a loss of a primary sales tax contributor, the reserve level in the Budget Stabilization Fund would provide for a 3 year transition period, giving the Town adequate time to realign its operating costs with available resources, while minimizing service impacts.

#### Catastrophic Reserve

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

#### Budget Stabilization Reserve

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of "economic triggers" and one-time uses include, but are not limited to:

- Significant decrease in property or sales tax, or other economically sensitive revenues;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in revenue due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

### CalPERS Reserve

Effective upon the close of fiscal year 2015/16 and thereafter, if sufficient General Fund year-end savings are available and targeted reserve levels of 25% of the next fiscal year's operating budget have been met, funds not to exceed \$300,000 annually shall be deposited into the CalPERS Reserve fund. These funds will be used as a funding source for potential "lump-sum" pay downs of unfunded pension liabilities, or held in the reserve account to be used as a supplemental funding source for increases to the annual pension costs resulting from a Town "Fresh Start" (re-amortization) of the miscellaneous and safety pension plans..

### Capital and Special Projects Reserve

Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the Town 5-year Capital Improvement Plan, as there is no ongoing funding source to support the Town's capital needs.

### *Replenishment of Unreserved Fund Balance*

In keeping with the principles discussed in this policy, when either fund is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.

### *Excess Fund Balance*

At the end of each fiscal year, the Finance and Administrative Services Department reports on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end surplus which results in the General Fund fund balance exceeding the level required by the reserve policy shall be available for allocation for the following, subject to Council approval:

- Offset projected future deficits
- Anticipated intergovernmental fiscal impacts
- One-time funding, non-recurring needs

Upon funding of the above, any remaining surplus balances shall be divided equally between the Budget Stabilization Reserve and Capital and Special Projects Reserve for appropriation within the Capital Improvement Program budget.

APPROVED AS TO FORM:

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Robert Schultz, Town Attorney

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## SUMMARY OF STATEMENT NO. 54



### STANDARDS & GUIDANCE

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## SUMMARIES / STATUS

### SUMMARY OF STATEMENT NO. 54

#### *FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS*

(ISSUED 02/09)

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the *reserved* component of fund balance in favor of a *restricted* classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

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Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

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TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
April 28, 2016, 3:00 p.m.

110 E. Main Street  
Town Council Chambers  
Los Gatos, California

**DRAFT ACTION MINUTES**

**Call to Order:**

The Council Finance Committee meeting was called to order at 3:00 p.m.

**Members and Staff present:**

Mayor Barbara Spector  
Council Member Steve Leonardis  
Laurel Prevetti, Town Manager  
Stephen Conway, Finance Director  
Mark Gaeta, Accountant/Administrative Analyst

**Verbal Communications**

None.

**Agenda Items:**

**1. Approval of February 18, 2016 Council Finance Committee Meeting Minutes**

The February 18, 2016 Council Finance Committee meeting minutes were approved with no changes.

**2. Options to Address Unfunded Liabilities**

Committee members reviewed and discussed the information contained in the staff report. Stephen Conway provided responses to Committee members' questions.

**3. Evaluation of the California Policy Center's report entitled "California City Pension Burdens"**

Committee members reviewed and discussed the information contained in the staff report. Stephen Conway provided responses to Committee members' questions.

The Committee requested staff to return to a full Council discussion on strategies to address paying down a portion of the unfunded liabilities at the time of the FY 2016/17 budget discussion.

Meeting adjourned at 4:05 p.m.



**TOWN OF LOS GATOS  
FINANCE COMMITTEE REPORT**

MEETING DATE: 11/21/2016

ITEM NO: 2

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DATE: NOVEMBER 17, 2016

TO: COUNCIL FINANCE COMMITTEE

FROM: LAUREL PREVETTI, TOWN MANAGER

SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO RECEIVE THE FIRST QUARTER INVESTMENT REPORT (JULY THROUGH SEPTEMBER 2016) FOR FISCAL YEAR 2016/17 AND ACCEPT THE RECONCILED DEMAND ACCOUNT BALANCES (FEBRUARY THROUGH JUNE 2016) AS RESTATED FOR JUNE 30, 2016.

**RECOMMENDATION:**

Staff recommends that the Council Finance Committee forward a recommendation to the Town Council to receive the First Quarter Investment Report (July through September 2016) for Fiscal Year 2016/17 and accept the reconciled demand account balances (February 2016 through June 2016) as restated for June 30, 2016.

**DISCUSSION:**

Attachment 1 contains the First Quarter Investment Report (July through September 2016) (The Town's weighted portfolio yield of 0.84% for first quarter) is still outperforming the Local Agency Investment Fund (LAIF) yield of 0.63% (difference of 21 basis points). Therefore, staff continues to replace matured or called investments with similar investments with respect to maturity and credit quality. For the quarter, the Town's weighted average rate of return lowered by 1 basis point from 0.85% rate earned in the fourth quarter of FY 2015/16.

The economic climate remains guardedly optimistic with signs of moderate growth in the gross domestic product (GDP). The United States GDP expanded at a 1.4% rate in the second quarter (April through June 2016), up from the first quarter's rate of 1.1%. The increase beat analysts' expectations. Consumer spending, the most important component of economic growth remained nearly unchanged. The Federal Reserve governors continue to give signals that the economy may warrant an interest rate increase as some point early next year.

**PREPARED BY:**           STEPHEN CONWAY  
Finance Director

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Reviewed by: Town Manager and Interim Assistant Town Manager

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PAGE 2 OF 2

SUBJECT: RECEIVE FIRST QUARTER INVESTMENT REPORT (JULY THROUGH SEPTEMBER 2016) FOR FISCAL YEAR 2016/17

DATE: NOVEMBER 17, 2016

DISCUSSION (Continued):

Staff continues to concentrate on short-term (two years or less in maturity) for its new investments with a potential shift from treasuries as they mature to high quality corporate medium term notes (higher yield). All investments are consistent with the Council adopted Investment Policy.

Corrected Demand Account Balances: Staff discovered through its own bank reconciliation process that there was an error in the treasurers' cash worksheet beginning in February 2016 that caused the bank balances to be reported too low in the investment reports submitted for February through June 30, 2016 of this year. The spreadsheet column for bank wires for the month erroneously omitted the wired in cash receipts from the monthly total cash receipts. This error impacted the investment report only; there was no impact on the actual investment balances presented on the report or the actual general ledger cash account balances.

Unrelated to the error discussed above, there is also a year-end revision to the historical cost cash and investments of \$105,437.66 based on a final third party audit to recognize annual amortization of premiums and discounts on the portfolio and other standard bank reconciliation adjustments resulting from completed bank reconciliations for the entire FY 2015/16. The corrections and the revision are contained in Attachment 2.

CONCLUSION:

The Council Finance Committee is welcome to ask questions and listen to public testimony regarding this item. Staff recommends that the Council Finance Committee forward a recommendation to the Town Council to receive the First Quarter Investment Report (July through September 2016) for Fiscal Year 2016/17 and accept the reconciled demand account balances (February 2016 through June 2016) as restated for June 30, 2016.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. First Quarter Investment Report for FY 2016/17 (July through September 2016)
2. Updated FY 15/16 Investment Report second pages (February 2016 through June 2016) to reflect cash wire receipts and year-end revision

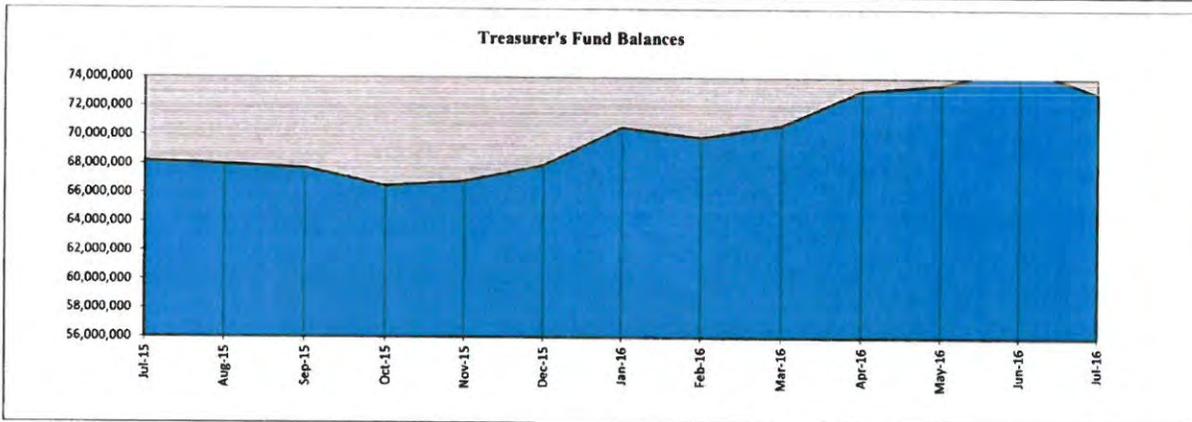
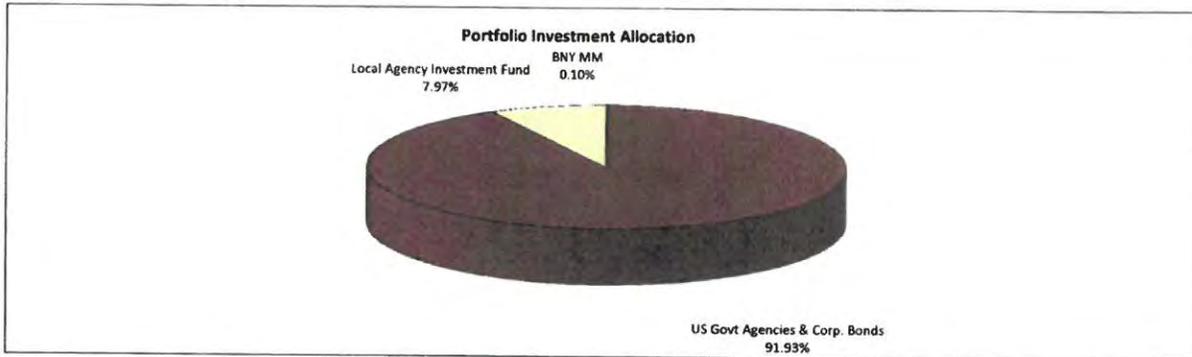


**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**July 31, 2016**

	<u>Month</u>	<u>YTD</u>
Cash Fund Balances - All Cash Accts G/L Beginning of Month/Period	74,913,936.39 *	74,913,936.39
Receipts Per Books	3,189,703.76	3,189,703.76
Disbursements Per Books	<u>(5,131,982.13)</u>	<u>(5,131,982.13)</u>
Fund Balances - End of Month/Period	<u>\$72,971,658.02</u>	<u>\$72,971,658.02</u>

**Portfolio Allocation:**

BNY MM	\$53,469.49
US Govt Agencies & Corp. Bonds	48,338,854.55
Local Agency Investment Fund	<u>4,192,309.28</u>
Subtotal - Investments	52,584,633.32
Demand Deposit Balances	<u>20,387,024.70</u>
<b>Total Treasurer's Fund</b>	<b><u>\$72,971,658.02</u></b>



\* adjusted June 30, 2016 to agree to final reconciled cash balance all funds per reconciliation prepared for 15/16 audit

**Town of Los Gatos  
Non-Treasury Restricted Fund Balances  
July 31, 2016**

	<u>Previous Balance</u>	<u>Deposits</u>	<u>Interest</u>	<u>Withdrawals</u>	<u>Ending Balance</u>	
<b>Non-Treasury Funds:</b>						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,285.52	\$ 5.66	\$ -	\$ -	\$ 686,291.18	Note 1
Cert. Of Participation 2002 Ser A Lease Pymt Fund	0.35	501,181.35	0.00	0.00	501,181.70	Note 1
Cert. of Participation 2002 Series A Const. Fund	12.93		0.00	12.93	0.00	Note 1
COP 2010 Library Reserve Fund	<u>1,277,371.65</u>		<u>51.28</u>	<u>0.00</u>	<u>1,277,422.93</u>	Note 2
<b>Total Restricted Funds:</b>	<u>\$1,963,670.45</u>	<u>\$501,187.01</u>	<u>\$51.28</u>	<u>\$12.93</u>	<u>\$2,464,895.81</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Town of Los Gatos  
Statement of Interest Earned  
July 31, 2016**

Interest by Month

July 2016	\$40,143.04
August 2016	
September 2016	
October 2016	
November 2016	
December 2016	
January 2017	
February 2017	
March 2017	
April 2017	
May 2017	
June 2017	
	<u>\$40,143.04</u>

**Town of Los Gatos  
Investment Schedule  
July 31, 2016**

Institution	Security	Deposit Date	Par Value	Original Cost	Market Value	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
PFIZER	Corporate Note	03/12/15	750,000.00	753,037.50	750,595.50	5/15/2017	0.91%	\$ 9,602.08	\$ 8,855.98	\$ 581.64	288
Treasury	Note	08/16/11	1,000,000.00	1,025,390.63	1,000,000.00	7/31/2016	0.97%	\$ 66,847.83	\$ 48,194.68	\$ 839.35	0
FNMA	Callable Note	03/28/14	1,000,000.00	1,014,600.00	1,001,307.00	9/28/2016	0.66%	\$ 25,000.00	\$ 15,089.49	\$ 567.00	59
Toyota Motor Credit	Coupon Note	01/00/00	500,000.00	502,200.00	501,510.00	10/5/2017	1.05%	\$ 4,600.69	\$ 5,138.43	\$ 447.45	431
Toyota Motor Credit	Corporate Note	07/25/16	950,000.00	954,246.50	956,343.15	5/20/2019	1.24%	\$ (2,401.39)	\$ -	\$ 193.87	1023
FNMA	Callable Note	05/14/13	1,500,000.00	1,500,000.00	1,500,780.00	11/14/2016	0.55%	\$ 24,750.00	\$ 25,834.93	\$ 700.68	106
Treasury	Note	06/10/14	1,000,000.00	1,000,000.00	1,000,877.00	11/15/2016	0.63%	\$ 12,058.42	\$ 12,859.59	\$ 530.82	107
Treasury	Note	06/10/14	1,000,000.00	1,004,062.50	1,002,227.00	1/31/2017	0.72%	\$ 14,357.73	\$ 14,845.10	\$ 612.78	184
FNMA	Callable Note	04/04/13	4,000,000.00	4,004,800.00	4,005,040.00	3/14/2017	0.72%	\$ 88,333.33	\$ 93,289.54	\$ 2,444.61	226
Treasury	Note	05/27/14	2,000,000.00	2,015,156.25	2,006,586.00	3/31/2017	0.73%	\$ 36,885.25	\$ 30,758.49	\$ 1,246.42	243
Treasury	Note	06/23/14	500,000.00	499,804.69	501,270.00	4/30/2017	0.89%	\$ 8,108.02	\$ 8,984.22	\$ 377.39	273
Berk Hath	Coupon Note	01/11/13	500,000.00	509,280.00	502,893.50	5/15/2017	1.61%	\$ 26,755.56	\$ 20,335.65	\$ 497.95	288
FNMA	Callable Note	10/19/12	1,500,000.00	1,504,050.00	1,505,433.00	9/20/2017	0.94%	\$ 51,291.67	\$ 52,436.88	\$ 1,204.11	416
FNMA	Callable Note	11/30/12	1,000,000.00	1,003,200.00	1,003,622.00	9/20/2017	0.93%	\$ 33,055.56	\$ 33,456.66	\$ 792.79	416
FNMA	Callable Note	12/04/12	1,000,000.00	1,002,750.00	1,003,622.00	9/20/2017	0.94%	\$ 32,916.67	\$ 33,651.06	\$ 800.60	416
FFCB	Coupon Note	10/18/12	2,000,000.00	1,996,960.00	2,003,620.00	9/21/2017	0.86%	\$ 56,895.00	\$ 63,725.70	\$ 1,462.25	417
FHLB	Coupon Note	12/12/12	2,000,000.00	1,998,720.00	2,000,420.00	12/8/2017	0.76%	\$ 51,083.33	\$ 54,170.75	\$ 1,295.75	495
FNMA	Callable Note	04/17/13	1,000,000.00	1,004,400.00	1,006,230.00	3/5/2018	1.03%	\$ 32,437.50	\$ 33,174.38	\$ 878.98	582
AAPL	Corporate Note	05/16/13	1,000,000.00	991,680.01	1,001,774.00	5/3/2018	1.17%	\$ 29,638.89	\$ 36,496.41	\$ 991.58	641
FHLB	Coupon Note	6/9/2015	1,000,000.00	997,710.00	1,007,710.00	8/27/2018	1.22%	\$ 8,241.66	\$ 12,947.39	\$ 1,037.13	757
Treasury	Note	6/9/2015	1,000,000.00	1,000,468.75	1,001,445.00	6/30/2017	0.73%	\$ 7,935.08	\$ 7,710.82	\$ 617.66	334
Treasury	Note	6/9/2015	1,000,000.00	1,004,140.63	1,004,219.00	9/15/2017	0.82%	\$ 7,663.04	\$ 8,669.78	\$ 694.48	411
Treasury	Note	6/11/2015	1,000,000.00	990,468.75	1,001,328.00	4/15/2018	1.09%	\$ 6,331.97	\$ 11,442.75	\$ 921.36	623
FHLB	Coupon Note	6/11/2015	2,000,000.00	1,991,820.00	2,010,080.00	5/25/2018	1.19%	\$ 20,533.33	\$ 25,069.41	\$ 2,018.58	663
Treasury	Note	7/31/2015	1,000,000.00	1,010,625.00	1,013,281.00	6/30/2018	1.00%	\$ 12,591.71	\$ 9,277.73	\$ 456.54	699
FFCB	Coupon Note	7/30/2015	2,500,000.00	2,509,525.00	2,514,770.00	12/18/2017	0.96%	\$ 24,843.75	\$ 22,220.23	\$ 2,050.08	505
FHLB	Coupon Note	8/20/2015	1,250,000.00	1,247,075.00	1,256,162.50	7/25/2018	1.13%	\$ 12,541.67	\$ 12,188.15	\$ 1,199.47	724
FHLB	Coupon Note	8/25/2015	1,000,000.00	999,500.00	1,004,930.00	7/25/2018	1.07%	\$ 9,887.50	\$ 9,063.35	\$ 906.33	724
FFCB	Coupon Note	8/27/2015	1,000,000.00	1,002,060.00	1,001,460.00	4/24/2017	0.63%	\$ 7,437.50	\$ 5,281.77	\$ 531.61	267
Walmart	Corporate Note	9/25/2015	1,000,000.00	998,960.00	1,005,248.00	4/11/2018	1.17%	\$ 6,125.00	\$ 8,911.65	\$ 990.18	619
Disney	Corporate Note	9/25/2015	995,000.00	995,298.50	998,691.45	12/1/2017	1.09%	\$ 7,479.08	\$ 8,261.82	\$ 917.98	488
FFCB	Coupon Note	10/27/2015	1,000,000.00	1,048,230.00	1,036,150.00	6/1/2018	0.86%	\$ 16,347.22	\$ 6,043.33	\$ 758.48	670
FHLB	Coupon Note	10/27/2015	1,000,000.00	1,005,030.00	1,007,260.00	9/14/2018	0.95%	\$ 4,281.25	\$ 6,433.14	\$ 807.40	775
FFCB	Coupon Note	10/29/2015	1,500,000.00	1,494,840.00	1,501,470.00	10/9/2018	0.99%	\$ 5,893.33	\$ 9,984.84	\$ 1,263.99	800
Chevron	Corporate Note	12/15/2015	1,250,000.00	1,252,262.50	1,254,912.50	11/9/2017	1.25%	\$ 7,068.33	\$ 8,441.73	\$ 1,321.69	466
Treasury	Note	1/26/2016	1,500,000.00	1,494,902.34	1,502,167.50	2/28/2018	0.91%	\$ 1,050.82	\$ 5,849.10	\$ 1,162.32	577
Wells Fargo	Corporate Note	2/2/2016	1,000,000.00	1,001,680.00	1,007,471.00	1/22/2018	1.56%	\$ 8,112.50	\$ 6,387.95	\$ 1,329.04	540
FHLMC	Coupon Note	4/29/2016	1,000,000.00	1,008,050.00	1,013,310.00	12/17/2018	1.04%	\$ 1,800.00	\$ 1,774.34	\$ 887.17	869
FFCB	Coupon Note	4/29/2016	1,000,000.00	1,001,870.00	1,007,240.00	3/21/2019	1.09%	\$ (1,224.44)	\$ 1,860.62	\$ 930.31	963
Subtotal				\$ 48,338,854.55	\$ 48,403,456.10			\$ 777,056.44	\$ 779,111.83	\$ 37,669.20	
BNY MM				53,469.49	53,469.49						
LAIF	N/A	12/31/14		4,192,309.28	4,192,309.28					2,123.22	
				\$52,584,633.32	\$52,649,234.87			\$ 777,056.44	\$ 779,111.83	\$ 39,792.42	

Bank of the West		Matured Assets		IBM Corporation						
IBM Corporation	Corporate Note	11/13/12	750,000.00	782,505.00	7/22/2016	0.76%	\$ 53,990.62	\$ 21,116.64	\$ 350.62	

<b>Total Investments "Matured"</b>				\$ 782,505.00			\$ 831,047.06	\$ 800,228.47	\$ 40,143.04	
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Maturity Profile		Amount
0-1 year		\$19,574,439.09
1-2 years		\$24,301,872.73
2-3 years		\$8,708,321.50
3-5 years		50.00
		\$52,584,633.32

Market to Cost Position Report		Amortized Cost
Institution		
BNY Assets		\$48,338,854.55
BNY MM		53,469.49
LAIF		4,192,309.28
Totals		\$52,584,633.32

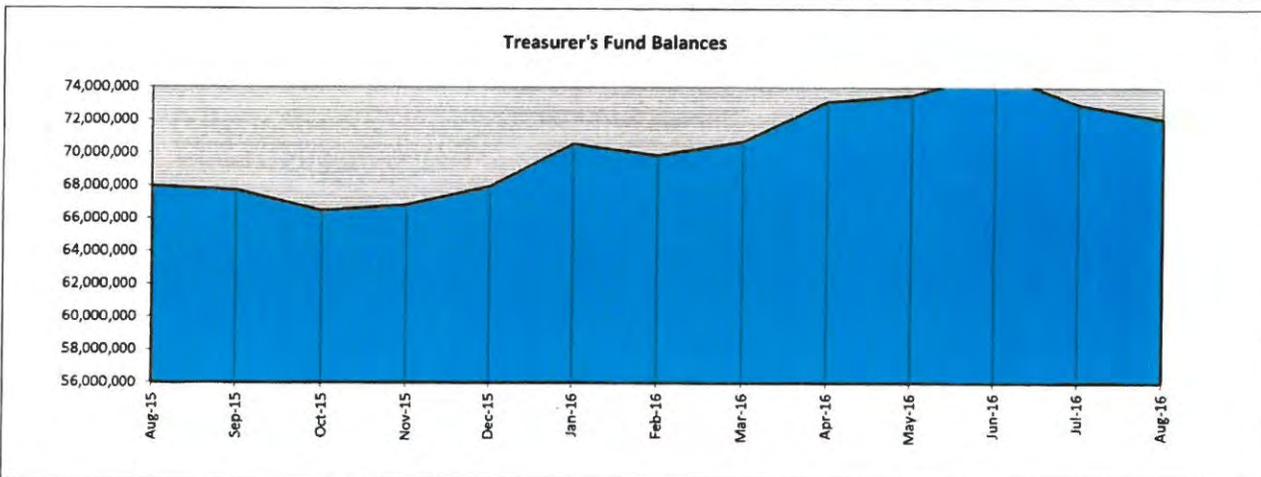
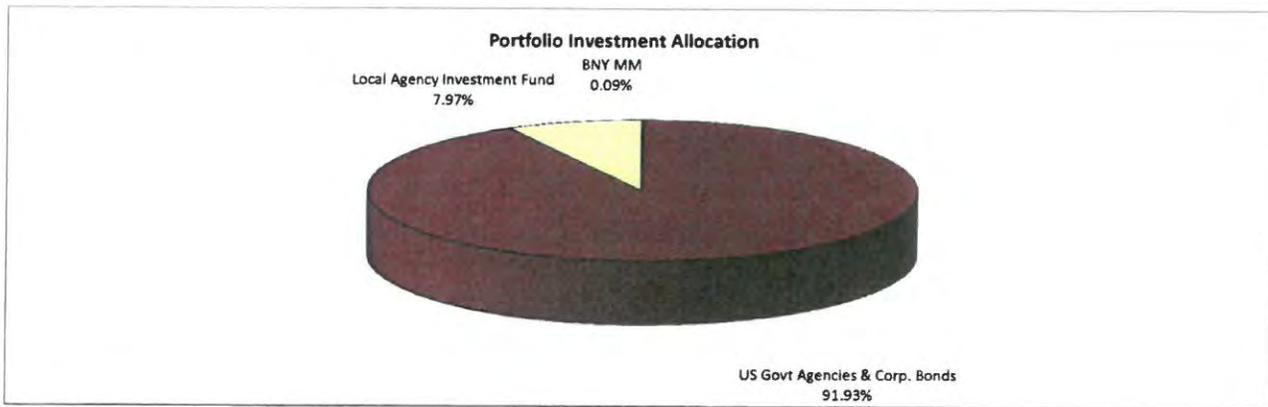


**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**August 31, 2016**

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$72,971,658.02	\$74,913,936.39
Receipts	2,320,202.60	5,509,906.36
Disbursements	<u>(3,221,176.10)</u>	<u>(8,353,158.23)</u>
Fund Balances - End of Month/Period	<u>\$72,070,684.52</u>	<u>\$72,070,684.52</u>

**Portfolio Allocation:**

BNY MM	\$48,262.39
US Govt Agencies & Corp. Bonds	48,333,981.42
Local Agency Investment Fund	<u>4,192,309.28</u>
Subtotal - Investments	52,574,553.09
Reconciled Demand Deposit Balances	<u>19,496,131.43</u>
<b>Total Treasurer's Fund</b>	<b><u>\$72,070,684.52</u></b>



**Town of Los Gatos  
Non-Treasury Restricted Fund Balances  
August 31, 2016**

Non-Treasury Funds:	Previous Balance	Deposits	Interest	Withdrawals	Ending Balance	
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,291.18	\$ -	\$ 5.84	\$ -	\$ 686,297.02	Note 1
Cert. Of Participation 2002 Ser A Lease Pymt Fund	501,181.70	0.00	1.86	501,168.75	14.81	Note 1
Cert. of Participation 2002 Series A Const. Fund	0.00		0.00		0.00	Note 1
COP 2010 Library Reserve Fund	<u>1,277,422.93</u>	<u>0.00</u>	<u>37.79</u>	<u>0.00</u>	<u>1,277,460.72</u>	Note 2
<b>Total Restricted Funds:</b>	<b><u>\$2,464,895.81</u></b>	<b><u>\$0.00</u></b>	<b><u>\$45.49</u></b>	<b><u>\$501,168.75</u></b>	<b><u>\$1,963,772.55</u></b>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Town of Los Gatos  
Statement of Interest Earned  
August 31, 2016**

Interest by Month

July 2016	\$40,143.04
August 2016	41,290.98
September 2016	
October 2016	
November 2016	
December 2016	
January 2017	
February 2017	
March 2017	
April 2017	
May 2017	
June 2017	
	<u>\$81,434.02</u>

**Town of Los Gatos  
Investment Schedule  
August 31, 2016**

Institution	Security	Deposit Date	Par Value	Original Cost	Original Issue (Discount Premium)	Market Value	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Pfizer	Corporate Note	03/11/15	750,000.00	753,037.50	3,037.50	750,682.13	5/15/2017	0.91%	\$ 9,602.08	\$ 8,855.98	\$ 1,163.29	257
Freddie Mac	Coupon Note	08/01/16	1,000,000.00	1,005,560.00	5,560.00	1,003,920.00	4/15/2019	0.92%	\$ (4,062.50)	\$ -	\$ 755.66	957
FNMA	Callable Note	03/28/14	1,000,000.00	1,014,600.00	14,600.00	1,000,671.00	9/28/2016	0.66%	\$ 25,000.00	\$ 15,089.49	\$ 1,134.00	28
Toyota Motor Credit	Coupon Note	07/10/15	500,000.00	502,200.00	2,200.00	501,323.50	10/5/2017	1.05%	\$ 4,600.69	\$ 5,138.43	\$ 894.50	400
Toyota Motor Credit	Corporate Note	07/25/16	950,000.00	954,246.50	4,246.50	952,679.95	5/20/2019	1.24%	\$ (2,401.39)	\$ -	\$ 1,195.53	992
FNMA	Callable Note	05/14/13	1,500,000.00	1,500,000.00	0.00	1,500,450.00	11/14/2016	0.55%	\$ 24,750.00	\$ 25,834.93	\$ 1,401.37	75
FNMA	Callable Note	04/04/13	4,000,000.00	4,004,800.00	4,800.00	4,004,040.00	3/14/2017	0.72%	\$ 88,333.33	\$ 93,289.54	\$ 4,889.22	195
Treasury	Note	05/27/14	2,000,000.00	2,015,156.25	15,156.25	2,005,000.00	3/31/2017	0.73%	\$ 36,885.25	\$ 30,758.49	\$ 2,492.84	212
Treasury	Note	06/23/14	500,000.00	499,804.69	(195.31)	500,996.00	4/30/2017	0.89%	\$ 8,108.02	\$ 8,984.22	\$ 754.77	242
Berk Hath	Coupon Note	01/11/13	500,000.00	509,280.00	9,280.00	502,093.00	5/15/2017	1.61%	\$ 26,755.56	\$ 20,335.65	\$ 995.90	257
FNMA	Callable Note	10/19/12	1,500,000.00	1,504,050.00	4,050.00	1,504,887.00	9/20/2017	0.94%	\$ 51,291.67	\$ 52,436.88	\$ 2,408.21	385
US Bancorp	Corporate Note	8/8/2016	1,000,000.00	1,019,550.00	19,550.00	1,015,459.00	10/15/2018	1.08%	\$ (4,495.83)	\$ -	\$ 665.30	775
Microsoft	Corporate Note	8/8/2016	1,000,000.00	999,470.00	(530.00)	998,050.00	8/8/2019	1.12%	\$ -	\$ -	\$ 704.28	1072
FNMA	Callable Note	11/30/12	1,000,000.00	1,003,200.00	3,200.00	1,003,258.00	9/20/2017	0.93%	\$ 33,055.56	\$ 33,450.66	\$ 1,585.58	385
FNMA	Callable Note	12/04/12	1,000,000.00	1,002,750.00	2,750.00	1,003,258.00	9/20/2017	0.94%	\$ 32,916.67	\$ 33,651.06	\$ 1,601.20	385
FFCB	Coupon Note	10/18/12	2,000,000.00	1,996,960.00	(3,040.00)	1,999,780.00	9/21/2017	0.86%	\$ 56,855.00	\$ 63,725.70	\$ 2,924.50	386
FHLB	Coupon Note	12/12/12	2,000,000.00	1,998,720.00	(1,280.00)	1,999,000.00	12/8/2017	0.76%	\$ 51,083.33	\$ 54,170.75	\$ 2,591.50	464
FNMA	Callable Note	04/17/13	1,000,000.00	1,004,400.00	4,400.00	1,004,100.00	3/5/2018	1.03%	\$ 32,437.50	\$ 33,174.38	\$ 1,757.96	551
AAPL	Corporate Note	05/16/13	1,000,000.00	991,680.01	(8,319.99)	999,833.00	5/3/2018	1.17%	\$ 29,638.89	\$ 36,496.41	\$ 1,984.15	610
FHLB	Coupon Note	6/9/2015	1,000,000.00	997,710.00	(2,290.00)	1,004,830.00	8/27/2018	1.22%	\$ 13,991.66	\$ 17,947.39	\$ 2,074.26	726
Treasury	Note	6/9/2015	1,000,000.00	1,000,468.75	468.75	1,000,859.00	6/30/2017	0.73%	\$ 7,935.08	\$ 7,730.82	\$ 1,235.33	303
Treasury	Note	6/9/2015	1,000,000.00	1,004,140.63	4,140.63	1,003,047.00	9/15/2017	0.82%	\$ 7,663.04	\$ 8,669.76	\$ 1,388.96	380
Treasury	Note	6/11/2015	1,000,000.00	990,468.75	(9,531.25)	999,531.00	4/15/2018	1.09%	\$ 6,331.97	\$ 11,442.75	\$ 1,842.73	592
FHLB	Coupon Note	6/11/2015	2,000,000.00	1,991,820.00	(8,180.00)	2,005,140.00	5/25/2018	1.19%	\$ 20,533.33	\$ 25,069.41	\$ 4,037.15	632
Treasury	Note	7/31/2015	1,000,000.00	1,010,625.00	10,625.00	1,010,352.00	6/30/2018	1.00%	\$ 12,591.71	\$ 9,277.73	\$ 1,717.07	668
FFCB	Coupon Note	7/30/2015	2,500,000.00	2,509,525.00	9,525.00	2,510,095.00	12/18/2017	0.96%	\$ 24,843.75	\$ 22,220.23	\$ 4,100.16	474
FHLB	Coupon Note	8/20/2015	1,250,000.00	1,247,075.00	(2,925.00)	1,252,825.00	7/25/2018	1.13%	\$ 12,541.67	\$ 12,188.15	\$ 2,398.94	693
FHLB	Coupon Note	8/25/2015	1,000,000.00	999,500.00	(500.00)	1,002,260.00	7/25/2018	1.07%	\$ 9,887.50	\$ 9,063.35	\$ 1,812.67	693
FFCB	Coupon Note	8/27/2015	1,000,000.00	1,002,060.00	2,060.00	1,001,170.00	4/24/2017	0.63%	\$ 7,437.50	\$ 5,281.77	\$ 1,063.21	236
Walmart	Corporate Note	9/25/2015	1,000,000.00	998,960.00	(1,040.00)	1,003,323.00	4/11/2018	1.17%	\$ 6,125.00	\$ 8,911.65	\$ 1,980.37	588
Disney	Corporate Note	9/25/2015	995,000.00	995,298.50	298.50	995,298.80	12/11/2017	1.09%	\$ 7,479.08	\$ 8,261.82	\$ 1,835.96	457
FFCB	Coupon Note	10/27/2015	1,000,000.00	1,048,230.00	48,230.00	1,030,600.00	6/1/2018	0.86%	\$ 16,347.22	\$ 6,043.33	\$ 1,516.95	639
FHLB	Coupon Note	10/27/2015	1,000,000.00	1,005,030.00	5,030.00	1,003,540.00	9/14/2018	0.95%	\$ 4,281.25	\$ 4,833.14	\$ 1,614.80	744
FFCB	Coupon Note	10/29/2015	1,500,000.00	1,494,840.00	(5,160.00)	1,497,345.00	10/9/2018	0.99%	\$ 5,833.33	\$ 9,984.84	\$ 2,526.78	769
Chevron	Corporate Note	12/15/2015	1,250,000.00	1,252,262.50	2,262.50	1,254,270.00	11/9/2017	1.25%	\$ 7,068.33	\$ 8,441.73	\$ 2,643.37	435
Treasury	Note	1/26/2016	1,500,000.00	1,494,902.34	(5,097.66)	1,499,590.50	2/28/2018	0.91%	\$ 6,675.82	\$ 5,849.10	\$ 2,324.64	546
Wells Fargo	Corporate Note	2/2/2016	1,000,000.00	1,001,680.00	1,680.00	1,005,946.00	1/22/2018	1.56%	\$ 8,112.50	\$ 6,387.95	\$ 2,658.07	509
FHLMC	Coupon Note	4/29/2016	1,000,000.00	1,008,050.00	8,050.00	1,010,100.00	12/17/2018	1.04%	\$ 1,800.00	\$ 1,774.34	\$ 1,774.34	838
FFCB	Coupon Note	4/29/2016	1,000,000.00	1,001,870.00	1,870.00	1,003,470.00	3/21/2019	1.09%	\$ (1,224.44)	\$ 1,860.62	\$ 1,860.62	932
Subtotal				\$ 48,333,981.42	\$ 138,981.42	\$ 48,343,012.88			\$ 686,609.13	\$ 703,212.45	\$ 74,305.52	
BNY MM				48,262.39		48,262.39						
LAIF	N/A	12/31/14		4,192,309.28		4,192,309.28					4,246.45	
				\$52,574,553.09		\$52,583,584.55			\$ 686,609.13	\$ 703,212.45	\$ 78,551.97	
<b>Bank of the West</b>												
<b>Matured Assets</b>												
IBM Corporation	Corporate Note	11/13/12	750,000.00	782,505.00	32,505.00		7/22/2016	0.76%	\$ 53,990.62	\$ 21,116.64	\$ 350.62	
Treasury	Note	08/16/11	1,000,000.00	1,025,390.63	25,390.63		8/1/2016	0.97%	\$ 74,347.83	\$ 48,194.68	\$ 1,273.97	
Treasury	Note	06/10/14	1,000,000.00	1,000,000.00	0.00		8/4/2016	0.00%	\$ 12,058.42	\$ 12,859.59	\$ 599.32	
Treasury	Note	06/10/14	1,000,000.00	1,004,062.50	4,062.50		8/4/2016	0.42%	\$ 18,732.73	\$ 14,121.82	\$ 658.14	
Total Investments "Matured"				\$3,811,958.13					\$ 845,738.73	\$ 799,505.19	\$ 81,434.02	
<b>Maturity Profile</b>												
				Amount								
0-1 year				\$16,539,778.86								
1-2 years				\$26,548,447.73								
2-3 years				\$9,486,326.50								
3-5 years				\$0.00								
				\$52,574,553.09								
<b>Market to Cost Position Report</b>												
				Amortized								
				Cost								
Institution				\$48,333,981.42								
BNY Assets				48,262.39								
LAIF				4,192,309.28								
Totals:				\$52,574,553.09								

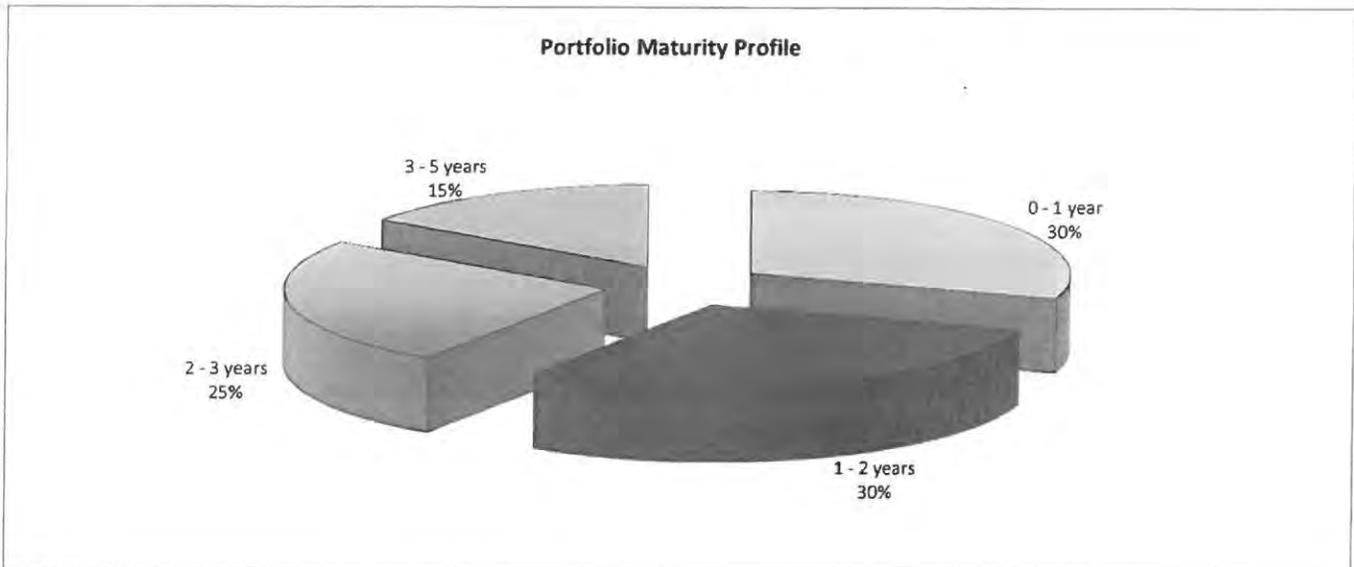
**Town of Los Gatos  
Summary Investment Information  
September 30, 2016**

**Weighted Average Portfolio Yield:** **0.84%** **Weighted Average Maturity (days)** **430**

	<u>This Month</u>	<u>Last Month</u>	<u>One year ago</u>
<b>Portfolio Balance</b>	\$69,818,409	\$72,070,685	\$67,716,336

**Benchmarks/ References:**

Town's Average Yield	0.84%	0.86%	0.81%
LAIF Yield for month	0.57%	0.57%	0.30%
3 mo. Treasury	0.26%	0.26%	0.00%
6 mo. Treasury	0.35%	0.35%	0.08%
2 yr. Treasury	0.58%	0.58%	0.64%
5 yr. Treasury (most recent)	0.99%	0.99%	1.37%
10 Yr. Treasury	1.44%	1.44%	2.06%



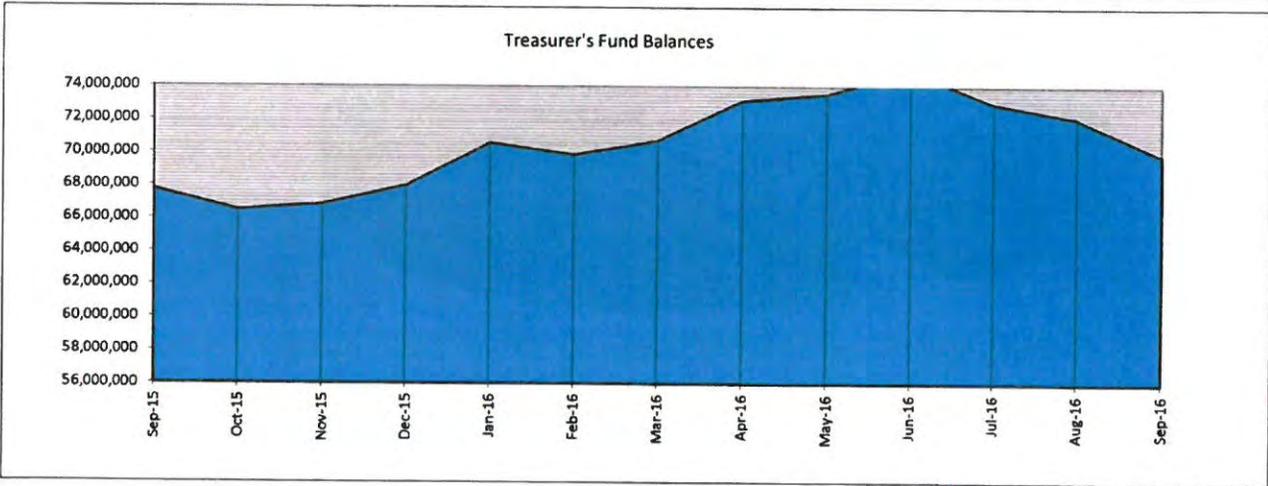
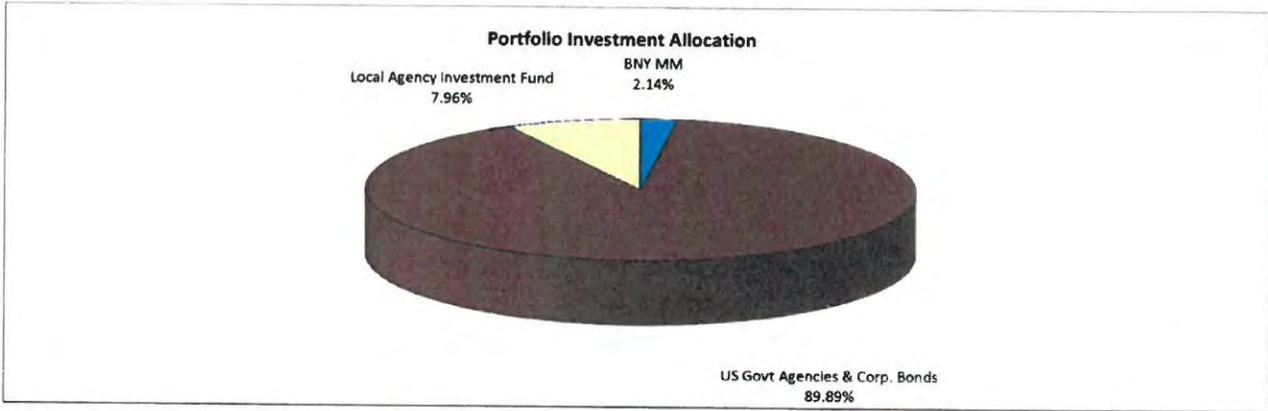
**Compliance:** The Town's investments are in compliance with the Town's investment policy dated November 1, 2016 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos  
Portfolio Allocation & Treasurer's Fund Balances  
September 30, 2016**

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$72,070,684.52	\$74,913,936.39
Receipts	2,469,598.82	7,979,505.18
Disbursements	<u>(4,721,874.72)</u>	<u>(13,075,032.95)</u>
Fund Balances - End of Month/Period	<u>\$69,818,408.62</u>	<u>\$69,818,408.62</u>

Portfolio Allocation:

BNY MM	\$1,127,413.27
US Govt Agencies & Corp. Bonds	47,319,381.42
Local Agency Investment Fund	<u>4,192,309.28</u>
Subtotal - Investments	52,639,103.97
Reconciled Demand Deposit Balances	<u>17,179,304.65</u>
 Total Treasurer's Fund	 <u>\$69,818,408.62</u>



Town of Los Gatos  
 Non-Treasury Restricted Fund Balances  
 September 30, 2016

Non-Treasury Funds:	<u>Previous Balance</u>	<u>Deposits</u>	<u>Interest</u>	<u>Withdrawals</u>	<u>Ending Balance</u>	
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,279.67	\$ -	\$ 5.85	\$ -	\$ 686,285.52	Note 1
Cert. Of Participation 2002 Ser A Lease Pymt Fund	0.35	0.00	0.00	0.00	0.35	Note 1
Cert. of Participation 2002 Series A Const. Fund	12.93		0.00		12.93	Note 1
COP 2010 Library Reserve Fund	<u>1,277,312.72</u>	<u>0.00</u>	<u>58.93</u>	<u>0.00</u>	<u>1,277,371.65</u>	Note 2
Total Restricted Funds:	<u>\$1,963,605.67</u>	<u>\$0.00</u>	<u>\$64.78</u>	<u>\$0.00</u>	<u>\$1,963,670.45</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Town of Los Gatos  
Statement of Interest Earned  
September 30, 2016**

Interest by Month

July 2016	\$40,143.04
August 2016	41,290.98
September 2016	39,945.53
October 2016	
November 2016	
December 2016	
January 2017	
February 2017	
March 2017	
April 2017	
May 2017	
June 2017	
	<u>\$121,379.55</u>

**Town of Los Gatos  
Investment Schedule  
September 30, 2016**

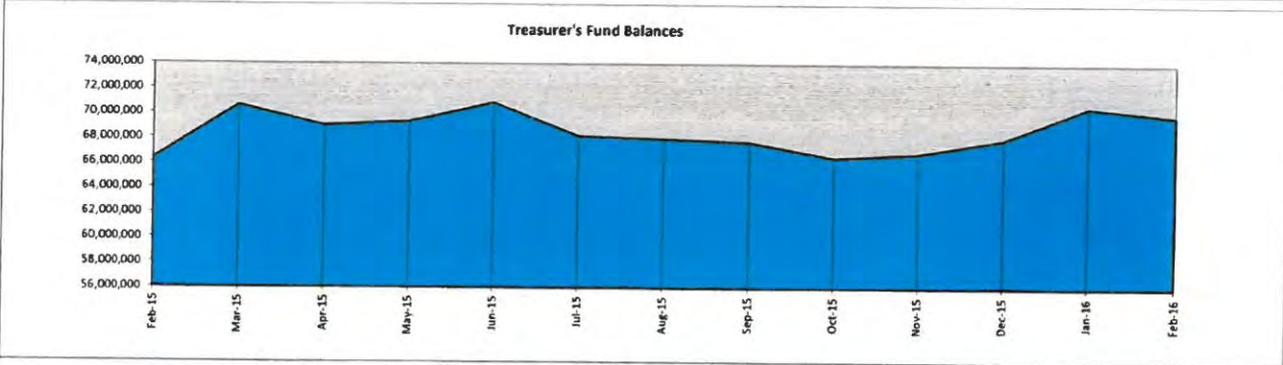
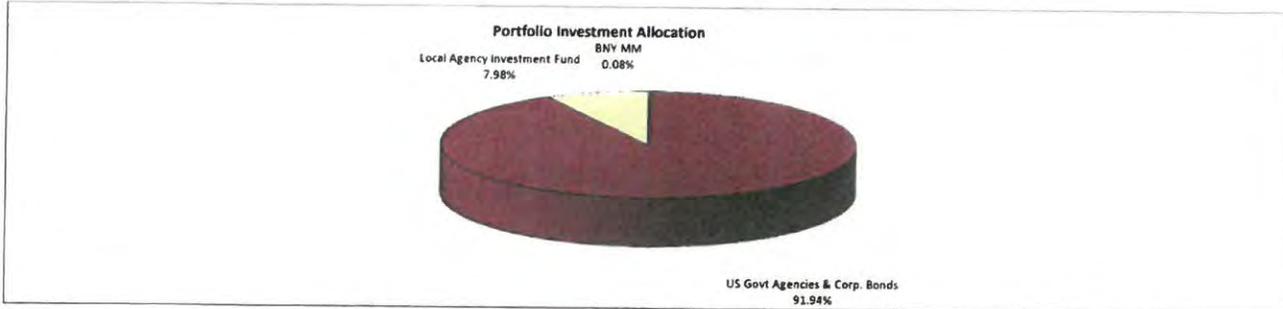
Institution	Security	Deposit Date	Par Value	Original Cost	Original Issue (Discount/Premium)	Market Value	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs	Interest Earned Current FY	Days to Maturity
Pfizer	Corporate Note	03/11/15	750,000.00	753,037.50	3,037.50	750,621.38	5/15/2017	0.91%	\$ 9,602.08	\$ 8,855.98	\$ 1,726.17	227
Freddie Mac	Coupon Note	08/01/16	1,000,000.00	1,005,560.00	5,560.00	1,004,441.00	4/15/2019	0.92%	\$ (4,062.50)	\$ -	\$ 1,511.32	927
Toyota Motor Credit	Coupon Note	07/10/15	500,000.00	502,200.00	2,200.00	500,445.00	10/5/2017	1.05%	\$ 4,600.69	\$ 5,138.43	\$ 1,327.81	370
Toyota Motor Credit	Corporate Note	07/25/16	950,000.00	954,246.50	4,246.50	951,193.20	5/20/2019	1.24%	\$ (2,401.39)	\$ -	\$ 2,164.87	962
FNMA	Callable Note	05/14/13	1,500,000.00	1,500,000.00	0.00	1,500,435.00	11/14/2016	0.55%	\$ 24,750.00	\$ 25,834.93	\$ 2,079.45	45
FNMA	Callable Note	04/04/13	4,000,000.00	4,004,800.00	4,800.00	4,005,040.00	3/14/2017	0.72%	\$ 103,333.33	\$ 93,289.54	\$ 7,254.88	165
Treasury	Note	05/27/14	2,000,000.00	2,015,156.25	15,156.25	2,005,004.00	3/1/2017	0.73%	\$ 36,885.25	\$ 30,758.49	\$ 3,699.06	182
Treasury	Note	06/23/14	500,000.00	499,804.69	(195.31)	500,986.50	4/30/2017	0.89%	\$ 8,108.02	\$ 8,884.22	\$ 1,119.98	212
Berk Hath	Coupon Note	01/11/13	500,000.00	509,280.00	9,280.00	501,705.50	5/15/2017	1.61%	\$ 26,755.56	\$ 20,335.65	\$ 1,477.79	227
FNMA	Callable Note	10/19/12	1,500,000.00	1,504,050.00	4,050.00	1,503,882.00	9/20/2017	0.94%	\$ 58,791.67	\$ 52,436.88	\$ 3,573.48	355
US Bancorp	Corporate Note	8/7/2016	1,000,000.00	1,019,550.00	19,550.00	1,012,703.00	10/15/2018	1.08%	\$ (4,495.83)	\$ -	\$ 1,533.07	745
Microsoft	Corporate Note	8/8/2016	1,000,000.00	999,470.00	(530.00)	996,811.00	8/8/2019	1.12%	\$ -	\$ -	\$ 1,622.91	1042
FNMA	Callable Note	11/30/12	1,000,000.00	1,003,200.00	3,200.00	1,002,588.00	9/20/2017	0.93%	\$ 36,055.56	\$ 33,450.66	\$ 2,352.80	355
FNMA	Callable Note	12/04/12	1,000,000.00	1,002,750.00	2,750.00	1,002,588.00	9/20/2017	0.94%	\$ 37,916.67	\$ 33,651.06	\$ 2,375.88	355
FFCB	Coupon Note	10/18/12	2,000,000.00	1,996,960.00	(3,040.00)	2,001,060.00	9/21/2017	0.86%	\$ 65,155.00	\$ 63,725.70	\$ 4,339.57	356
FHLE	Coupon Note	12/12/12	2,000,000.00	1,998,720.00	(1,280.00)	2,000,440.00	12/8/2017	0.76%	\$ 51,083.33	\$ 54,170.75	\$ 3,845.45	434
FNMA	Callable Note	04/17/13	1,000,000.00	1,004,400.00	4,400.00	1,004,500.00	3/5/2018	1.03%	\$ 38,062.50	\$ 33,174.38	\$ 2,608.58	521
AAPL	Corporate Note	05/16/13	1,000,000.00	991,680.01	(8,319.99)	998,606.00	5/3/2018	1.17%	\$ 29,638.89	\$ 36,496.41	\$ 2,942.74	580
FHLE	Coupon Note	6/9/2015	1,000,000.00	997,710.00	(2,290.00)	1,005,510.00	8/27/2018	1.22%	\$ 13,951.66	\$ 12,947.39	\$ 3,077.93	696
Treasury	Note	6/9/2015	1,000,000.00	1,000,468.75	468.75	1,001,092.00	6/30/2017	0.73%	\$ 7,935.08	\$ 7,710.82	\$ 1,833.06	273
Treasury	Note	6/9/2015	1,000,000.00	1,004,140.63	4,140.63	1,003,086.00	9/15/2017	0.82%	\$ 12,663.04	\$ 8,669.78	\$ 2,061.03	350
Treasury	Note	6/11/2015	1,000,000.00	990,468.75	(9,531.25)	1,000,156.00	4/15/2018	1.05%	\$ 6,331.97	\$ 11,442.75	\$ 2,734.37	562
FHLE	Coupon Note	6/11/2015	2,000,000.00	1,991,820.00	(8,180.00)	2,007,080.00	5/25/2018	1.19%	\$ 20,533.33	\$ 25,069.41	\$ 5,990.61	602
Treasury	Note	7/31/2015	1,000,000.00	1,010,625.00	10,625.00	1,010,469.00	6/30/2018	1.00%	\$ 12,591.71	\$ 9,277.73	\$ 2,547.91	638
FFCB	Coupon Note	7/30/2015	2,500,000.00	2,509,525.00	9,525.00	2,510,845.00	12/18/2017	0.96%	\$ 24,843.75	\$ 22,220.23	\$ 2,064.11	444
FHLE	Coupon Note	8/20/2015	1,250,000.00	1,247,075.00	(2,925.00)	1,254,200.00	7/25/2018	1.13%	\$ 12,541.67	\$ 12,188.15	\$ 3,559.71	663
FHLE	Coupon Note	8/25/2015	1,000,000.00	999,500.00	(500.00)	1,003,360.00	7/25/2018	1.07%	\$ 9,887.50	\$ 9,063.35	\$ 2,689.77	663
FFCB	Coupon Note	8/27/2015	1,000,000.00	1,002,060.00	2,060.00	1,001,200.00	4/24/2017	0.63%	\$ 7,437.50	\$ 5,281.77	\$ 1,577.67	206
Walmart	Corporate Note	9/25/2015	1,000,000.00	998,960.00	(1,040.00)	1,002,145.00	4/11/2018	1.17%	\$ 6,125.00	\$ 8,911.65	\$ 2,938.61	558
Disney	Corporate Note	9/25/2015	995,000.00	995,296.50	298.50	995,688.54	12/1/2017	1.09%	\$ 7,479.08	\$ 8,261.82	\$ 2,724.33	427
FFCB	Coupon Note	10/27/2015	1,000,000.00	1,048,230.00	48,230.00	1,030,170.00	6/1/2018	0.86%	\$ 16,347.22	\$ 6,043.33	\$ 2,250.96	609
FHLE	Coupon Note	10/27/2015	1,000,000.00	1,005,030.00	5,030.00	1,004,376.00	9/14/2018	0.95%	\$ 5,906.25	\$ 6,433.14	\$ 2,996.15	714
FFCB	Coupon Note	10/29/2015	1,500,000.00	1,494,840.00	(5,160.00)	1,499,460.00	10/9/2018	0.99%	\$ 5,833.33	\$ 9,984.84	\$ 3,749.41	739
Chevron	Corporate Note	12/15/2015	1,250,000.00	1,252,262.50	2,262.50	1,252,418.75	11/9/2017	1.25%	\$ 7,068.33	\$ 8,441.73	\$ 3,922.42	405
Treasury	Note	1/26/2016	1,500,000.00	1,494,902.34	(5,097.66)	1,500,468.00	2/28/2018	0.91%	\$ 6,675.82	\$ 5,845.10	\$ 3,449.47	516
Wells Fargo	Corporate Note	2/2/2016	1,000,000.00	1,001,680.00	1,680.00	1,002,899.00	1/22/2018	1.56%	\$ 8,112.50	\$ 6,387.95	\$ 3,944.24	479
FHLMC	Coupon Note	4/29/2016	1,000,000.00	1,008,050.00	8,050.00	1,010,760.00	12/17/2018	1.04%	\$ 1,800.00	\$ 1,774.34	\$ 2,632.89	806
FFCB	Coupon Note	4/29/2016	1,000,000.00	1,001,870.00	1,870.00	1,004,460.00	3/21/2019	1.09%	\$ 4,575.56	\$ 1,860.62	\$ 2,760.92	902
Subtotal				\$ 47,319,381.42	\$ 124,381.42	\$ 47,342,893.87			\$ 724,459.13	\$ 688,122.96	\$ 110,481.70	
BNY MM				1,127,413.27		1,127,413.27						
LAIF	N/A	12/31/14		4,192,309.28		4,192,309.28					6,369.67	
				\$52,639,103.97		\$52,662,616.42			\$ 724,459.13	\$ 688,122.96	\$ 116,851.37	
Bank of the West												
Matured Assets												
IBM Corporation	Corporate Note	11/13/12	750,000.00	782,505.00	32,505.00		7/22/2016	0.76%	\$ 53,990.62	\$ 21,116.64	\$ 350.62	
Treasury	Note	08/16/11	1,000,000.00	1,025,390.63	25,390.63		8/1/2016	0.97%	\$ 74,347.83	\$ 48,194.68	\$ 1,273.97	
Treasury	Note	06/10/14	1,000,000.00	1,000,000.00	0.00		8/4/2016	0.00%	\$ 12,058.42	\$ 12,859.55	\$ 599.32	
Treasury	Note	06/10/14	1,000,000.00	1,004,062.50	4,062.50		8/4/2016	0.42%	\$ 18,732.73	\$ 14,121.82	\$ 658.14	
FNMA	Callable Note	03/28/14	1,000,000.00	1,014,600.00	14,600.00		9/28/2016	0.66%	\$ 31,250.00	\$ 15,089.45	\$ 1,646.13	
Total Investments "Matured"				\$4,826,558.13					\$ 914,838.73	\$ 799,505.19	\$ 121,379.55	
Maturity Profile				Amount								
0-1 year				\$23,115,430.37								
1-2 years				\$22,040,087.10								
2-3 years				\$7,483,586.50								
3-5 years				\$0.00								
				\$52,639,103.97								
Market to Cost Position Report				Amortized Cost								
Institution												
BNY Assets				\$47,319,381.42								
BNY MM				1,127,413.27								
LAIF				4,192,309.28								
Totals				\$52,639,103.97								

Town of Los Gatos  
Portfolio Allocation & Treasurer's Fund Balances  
February 29, 2016

	Month	Month <u>CORRECTED</u>	YTD	YTD <u>CORRECTED</u>
Fund Balances - Beginning of Month/Period	\$70,618,926.85	\$70,618,926.85	\$70,832,337.72	\$70,832,337.72
Receipts	1,215,053.18	2,138,790.39	24,881,603.21	25,805,340.42
Disbursements	<u>(2,835,731.84)</u>	<u>(2,835,731.84)</u>	<u>(26,715,692.74)</u>	<u>(26,715,692.74)</u>
Fund Balances - End of Month/Period	<u>\$68,998,248.19</u>	<u>\$69,921,985.40</u>	<u>\$68,998,248.19</u>	<u>\$69,921,985.40</u>

Portfolio Allocation:

BNY MM	\$42,913.19	\$42,913.19
US Govt Agencies & Corp. Bonds	48,167,385.57	48,167,385.57
Local Agency Investment Fund	<u>4,181,786.38</u>	<u>4,181,786.38</u>
Subtotal - Investments	52,392,085.14	52,392,085.14
Reconciled Demand Deposit Balances	<u>16,606,163.05</u>	<u>17,529,900.26</u>
Total Treasurer's Fund	<u>\$68,998,248.19</u>	<u>\$69,921,985.40</u>

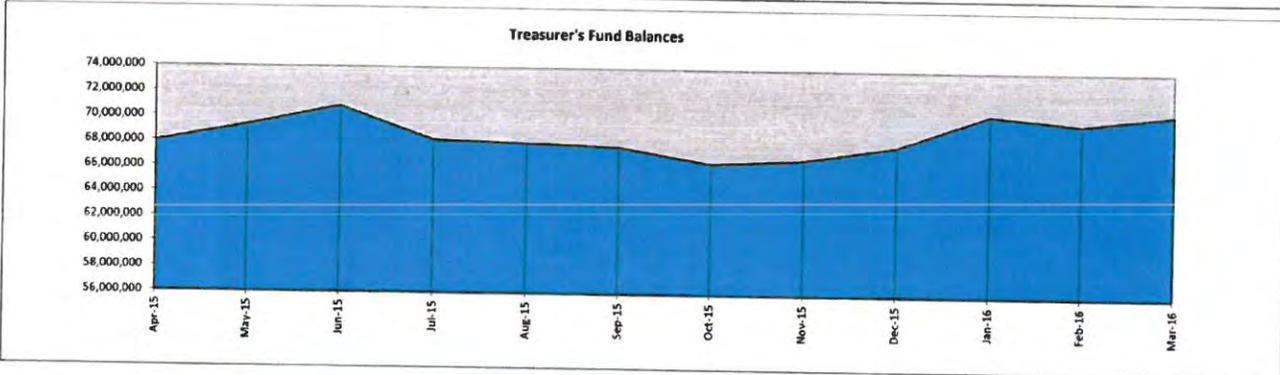
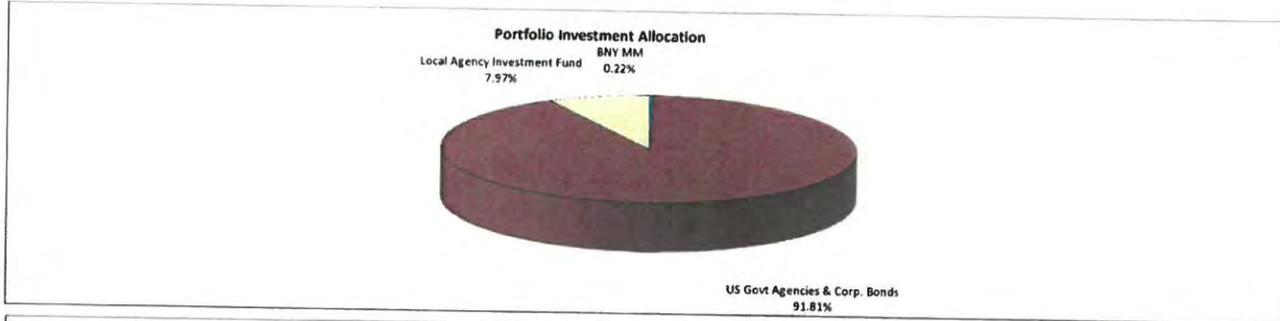


Town of Los Gatos  
**Portfolio Allocation & Treasurer's Fund Balances**  
 March 31, 2016

	<u>Month</u>	<u>Month</u> <u>CORRECTED</u>	<u>YTD</u>	<u>YTD</u> <u>CORRECTED</u>
Fund Balances - Beginning of Month/Period	\$68,998,248.19	\$69,921,985.40	\$70,832,337.72	\$70,832,337.72
Receipts	1,569,849.86	3,340,077.40	26,451,453.07	29,145,417.82
Disbursements	<u>(2,623,642.07)</u>	<u>(2,623,642.07)</u>	<u>(29,339,334.81)</u>	<u>(29,339,334.81)</u>
Fund Balances - End of Month/Period	<u>\$67,944,455.98</u>	<u>\$70,638,420.73</u>	<u>\$67,944,455.98</u>	<u>\$70,638,420.73</u>

**Portfolio Allocation:**

BNY MM	\$117,378.95	\$117,378.95
US Govt Agencies & Corp. Bonds	48,164,885.57	48,164,885.57
Local Agency Investment Fund	<u>4,181,786.38</u>	<u>4,181,786.38</u>
Subtotal - Investments	52,464,050.90	52,464,050.90
Reconciled Demand Deposit Balances	<u>15,480,405.08</u>	<u>18,174,369.83</u>
<b>Total Treasurer's Fund</b>	<u>\$67,944,455.98</u>	<u>\$70,638,420.73</u>

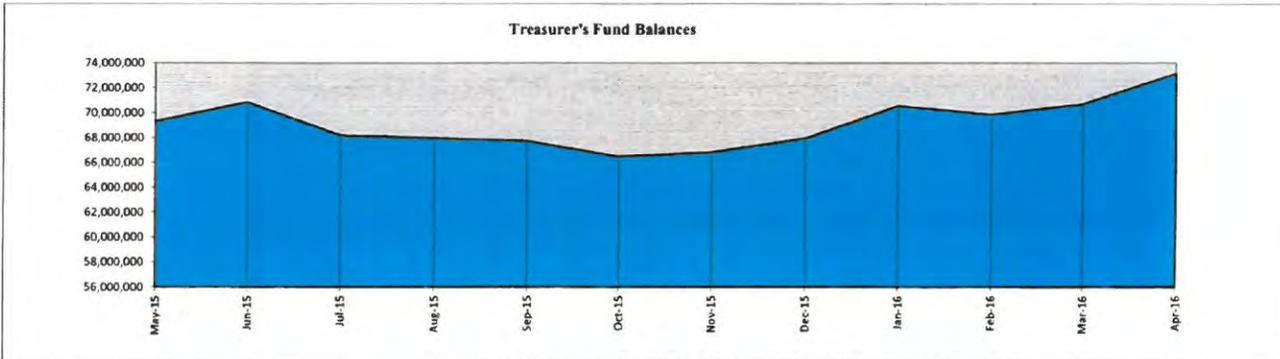
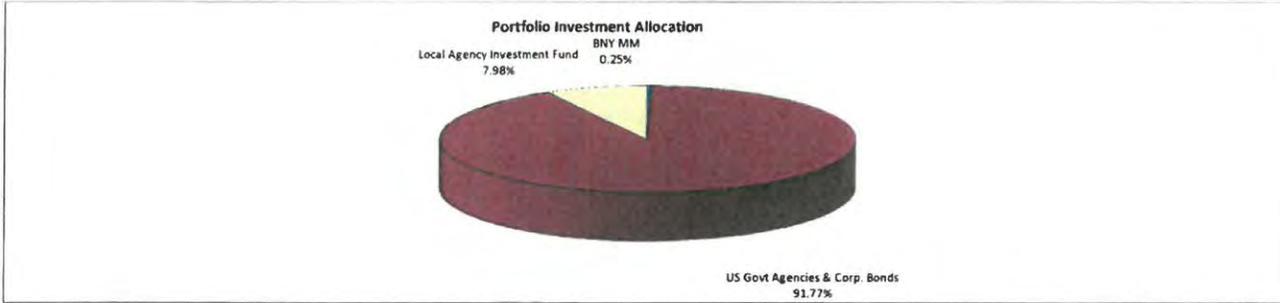


Town of Los Gatos  
 Portfolio Allocation & Treasurer's Fund Balances  
 April 30, 2016

	Month	Month CORRECTED	YTD	YTD CORRECTED
Fund Balances - Beginning of Month/Period	\$67,944,455.98	\$70,638,420.73	\$70,832,337.72	\$70,832,337.72
Receipts	1,467,266.49	6,030,530.08	27,918,719.56	35,175,947.90
Disbursements	(3,279,285.84)	(3,279,285.84)	(32,618,620.65)	(32,618,620.65)
Fund Balances - End of Month/Period	<u>\$66,132,436.63</u>	<u>\$73,389,664.97</u>	<u>\$66,132,436.63</u>	<u>\$73,389,664.97</u>

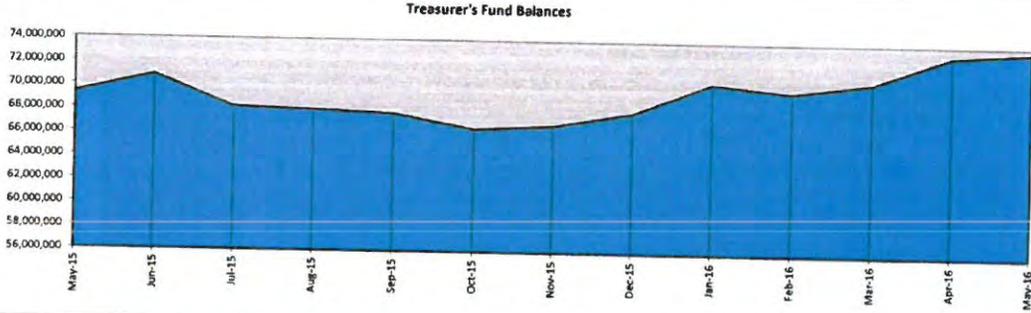
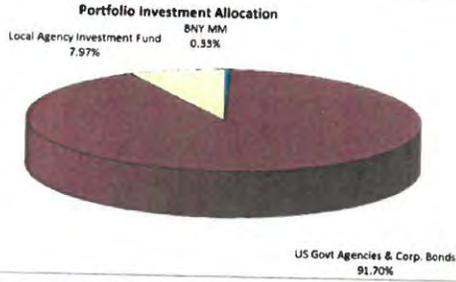
Portfolio Allocation:

BNY MM	\$133,721.00	\$117,378.95
US Govt Agencies & Corp. Bonds	48,174,731.66	48,164,885.57
Local Agency Investment Fund	<u>4,186,613.48</u>	<u>4,181,786.38</u>
Subtotal - Investments	52,495,066.14	52,464,050.90
Reconciled Demand Deposit Balances	<u>13,637,370.49</u>	<u>20,925,614.07</u>
<b>Total Treasurer's Fund</b>	<u>\$66,132,436.63</u>	<u>\$73,389,664.97</u>



**Town of Los Gatos  
Portfolio Allocation & Treasurer's Fund Balances  
May 31, 2016**

	<u>Month</u>	<u>Month</u> <u>CORRECTED</u>	<u>YTD</u>	<u>YTD</u> <u>CORRECTED</u>
Fund Balances - Beginning of Month/Period	\$66,132,436.63	\$73,389,664.97	\$70,832,337.72	\$70,832,337.72
Receipts	1,515,551.49	2,517,668.21	29,434,271.05	37,693,616.11
Disbursements	<u>(2,348,767.35)</u>	<u>(2,348,767.35)</u>	<u>(34,967,388.00)</u>	<u>(34,967,388.00)</u>
Fund Balances - End of Month/Period	<u>\$65,299,220.77</u>	<u>\$73,558,565.83</u>	<u>\$65,299,220.77</u>	<u>\$73,558,565.83</u>
<b>Portfolio Allocation:</b>				
BNY MM	\$174,844.84	\$174,844.84		
US Govt Agencies & Corp. Bonds	48,173,424.99	48,173,424.99		
Local Agency Investment Fund	<u>4,186,613.48</u>	<u>4,186,613.48</u>		
Subtotal - Investments	52,534,883.31	52,534,883.31		
Reconciled Demand Deposit Balances	<u>12,764,337.46</u>	<u>21,023,682.52</u>		
Total Treasurer's Fund	<u>\$65,299,220.77</u>	<u>\$73,558,565.83</u>		



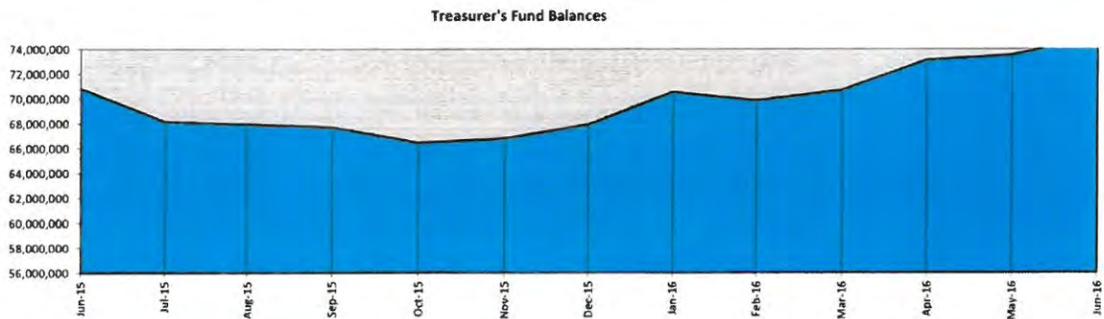
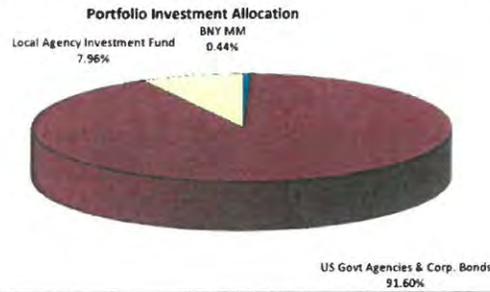
**Town of Los Gatos  
Portfolio Allocation & Treasurer's Fund Balances  
June 30, 2016**

	Month	Month <u>CORRECTED</u>	YTD	YTD <u>CORRECTED</u>
Fund Balances - Beginning of Month/Period	\$65,299,220.77	\$73,558,565.83	\$70,832,337.72	\$70,832,337.72
Receipts	1,292,406.21	5,551,888.89	30,726,677.26	43,245,505.00
Disbursements	(4,091,080.67)	(4,091,080.67)	(39,058,468.67)	(39,058,468.67)
FY 15/16 Final Audit Adjustments *		(105,437.66)		(105,437.66)
Fund Balances - End of Month/Period	<u>\$62,500,546.31</u>	<u>\$74,913,936.39</u>	<u>\$62,500,546.31</u>	<u>\$74,913,936.39</u>

**Portfolio Allocation:**

BNY MM	\$233,030.26	\$233,030.26
US Govt Agencies & Corp. Bonds	48,168,474.99	48,168,474.99
Local Agency Investment Fund	<u>4,186,613.48</u>	<u>4,186,613.48</u>
Subtotal - Investments	52,588,118.73	52,588,118.73
Reconciled Demand Deposit Balances	<u>9,912,427.58</u>	<u>22,325,817.66</u>
Total Treasurer's Fund	<u>\$62,500,546.31</u>	<u>\$74,913,936.39</u>

\* Standard year end adjustments to adjust to amortized cost and other misc. adjustments per monthly bank reconciliations completed for the FY 15/16.





**TOWN OF LOS GATOS  
FINANCE COMMITTEE REPORT**

MEETING DATE: 11/21/2016

ITEM NO: 2

DESK ITEM

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DATE: NOVEMBER 21, 2016

TO: COUNCIL FINANCE COMMITTEE

FROM: LAUREL PREVETTI, TOWN MANAGER

SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO RECEIVE THE FIRST QUARTER INVESTMENT REPORT (JULY THROUGH SEPTEMBER 2016) FOR FISCAL YEAR 2016/17 AND ACCEPT THE RECONCILED DEMAND ACCOUNT BALANCES (FEBRUARY THROUGH JUNE 2016) AS RESTATED FOR JUNE 30, 2016.

REMARKS:

Attachment 3 contains correspondence received after the Staff Report distribution. Staff is prepared to respond to all questions upon the Committee's request.

Attachments (previously received with November 17, 2016 Staff Report):

1. First Quarter Investment Report for FY 2016/17 (July through September 2016)
2. Updated FY 15/16 Investment Report second pages (February 2016 through June 2016) to reflect cash wire receipts and year-end revision

Attachment received with this Desk Item:

3. Public comment received before 11 a.m. on November 21, 2016.

PREPARED BY: STEPHEN CONWAY  
FINANCE DIRECTOR

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Reviewed by: Town Manager, Interim Assistant Town Manager

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November 19, 2016

**Re: Agenda Item #2 – Accept the Reconciled Demand Account Balances**

Dear Council Finance Committee,

**I cannot overstate the severity of having the Total Treasurer's Fund Balance for Q3 and Q4 2016 as reported in Quarterly Investment Reports understated by \$2.6m and \$12.4m respectively.** Both of these reports were previously submitted to the Town Council and were accepted by resolutions passed on June 21, 2016 and August 2, 2016. **The amount of understatement is simply stunning.**

It should also be pointed out that these Quarterly Investment Reports were never reviewed by the Council Finance Committee. Rather they were submitted directly to the Town Council and were accepted by unanimous vote on the consent agenda. There was no rigorous review or discussion regarding these critical financial reports prior to passing the resolution.

**I am writing to urge you not to accept the Staff recommendation to "accept the reconciled Demand Account Balances (February through June 2016)" until the Staff has provided written answers to at least the following questions:** 1) how did this material error occur; 2) who prepared the Quarterly Investment Reports; 3) are there written accounting desk procedures requiring the Treasurer's Fund Balance as reported in the Investment Report to be reconciled on a monthly basis to the Town's accounting records and bank balances; 4) when was the error first discovered, 5) who discovered the error and under what circumstances; 6) in what demand accounts was the unreported cash deposited; and 7) what corrective actions have been taken in terms of retraining personnel and implementing additional control procedures to insure this never occurs again.

The transmittal letter by the Town Manager with regard to Item 2 is silent with regard to answering these questions or providing any assurance there have been changes made to insure this mistake will not occur again. **Even more troubling is the fact that the Town Manager never mentions the cumulative magnitude of the error.** The only way the reader could determine that the cumulative effect of this error was \$12.4m was to dig through the many pages of Attachment 2 and find it. **A \$12.4m error should never be deeply buried in Attachments, rather it should be boldly highlighted so this Committee fully understands the magnitude of the error.**

Lastly, I truly hope that the Finance Committee reflects on what has occurred and finally recognizes that the committee needs to add knowledgeable residents who can provide additional oversight. **Having three knowledgeable residents on the committee, who are professionally trained in finance and accounting, who know the right questions to ask about a Quarterly Investment Report, is in itself a strong internal control procedure.** A \$12.4m understatement in the Treasurer's Fund which went undetected for at least 5 months, should be a wakeup call for immediate change.

Sincerely,

Phil Koen

CC: Town Council

11-21-16

**Finance Committee Meeting re year end 2015-2016, and 1Q 2016-2017**

Attached is a short list and also a full list of questions that we have regarding the financial information to be discussed in the 11-21-16 meeting. The full list are additional questions, but those may be modified depending on the answers we get today. If this is the only opportunity we have to present questions, then the full list is attached at the bottom of this letter.

We think the end result of this work between Staff, the Finance Committee and us will help to bring the Los Gatos financials into compliance with GASB standards. Though we would like to have all questions answered in this session, we think our total list would look like we were piling on. We're not. We're concerned residents of Los Gatos.

One of our goals is to have a constructive and thought-provoking session, the answers of which will bring the town closer to full compliance with GASB, and eliminate errors in the future. Our other goal is to be helpful in solving the problems we have found and not to be viewed as a thorn in Staff's side. We all want to be proud of Los Gatos, and though the finances are generally not something the general public seeks to understand, they are very critical to the success of our town.

We feel that all of these questions, once answered, and any mistakes corrected, could help to make the Los Gatos financial reporting more valuable to the Council in the management of town finances. These answers and the corrections they should bring to the statements will provide more clarity and transparency for the citizens of Los Gatos.

This was promised to the town by both the Mayor Sayoc and Vice-Mayor Rennie in their acceptance speeches.

Jak VanNada, Lee Fagot, Terry Duryea, Peter Hertan

## **The Abbreviated List:**

### Agenda Item 2: First Quarter Investment Report AND Restated Demand Account Balances (February through June 2016)

- We would like to understand how the misclassification between the demand account and the fund balance that was \$12.4M by June 30, 2016 could go undetected for 5 months.
  - o We view this as serious for a number of reasons:
    - § If it was due to a lack of timely account reconciliations, the foundation of any system of internal control, this represents a serious breakdown in the Town's system of internal control
    - § If the money was sitting in a non-interest bearing demand account, the error resulted in a loss of investment return
    - § Although the Town missed it, why didn't the financial institution or more importantly, the investment manager catch the error?
    - § Does the independent auditor feel he will need to disclose this as a "material inadequacy in internal controls"?
    - § What changes in process and oversight are to be implemented to preclude similar future errors?

- Agenda Item 3: Quarterly Budget Performance & Operating Report
  - o The following questions relate to the "box" in the Executive Summary that provides the detail of the General Fund Reserves as of June 30, 2016 in accordance with GASB #54
    - § Both the Almond Grove Reserve and the CalPERS Reserve were established by TC resolutions, yet the former is reported as Committed and the latter is presented as Assigned. Why are they reported differently?
    - § Where is the reserve for Compensated Absences (\$1,692K after being reduced by \$589K to fund Almond Grove) and Vasona Land Sale (\$411K) per the Oct 28, 2015 Council Resolution?
    - § Why is there not a reserve for post-retirement medical when this was recorded \$400,000 as an assigned general fund reserve as of June 30, 2015. Has there been a change in spending intent?
  - o How do the reported Q1 '16/'17 amounts reflect the unresolved employee wage negotiations? If an estimate is not provided, will the numbers be restated at a later date?

- Page 3 of the Executive Summary, next to last paragraph before the US Economic Outlook indicates that \$1.4 of the \$3.7M Capital Improvement reserve is already committed for capital projects. What are the capital projects?

**The Full List (if there is time – the abbreviated list is included with the longer list that follows):**

**Agenda Item 2: First Quarter Investment Report AND Restated Demand Account Balances** (February through June 2016)

- There's one issue that over shadows all others. The narrative "Corrected Demand Account Balances" attempts to explain it. I will leave it up to each TC member if they think the explanation is sufficient once they understand what happened. The error is reflected in multiple places in the report when compared to the prior period reports.
  - On page 1, the July 31, 2016 Summary of Investment Information shows a "Last Month" balance (i.e. as of June 30, 2016) of \$74,913,946. The problem is that if you look at the July 15, 2016 Fourth Quarter Investment Report that the Council approval, the June 30, 2016 balance is \$62,500,546. In summary, the TC accepted a report that had bad numbers. You will see the month by month effect for the 5 months on the last 5 pages of the November 17, 2016 investment report. The collective error at June 30, 2016 was \$12,413,400.
  - This raises the question of what happened?
    - It appears that the staff was not reconciling the bank accounts on a regular basis. This is the most basic requirement to insure good internal accounting controls. If accounts are reconciled monthly, it should have been identified as part of the monthly closing processing. In this case, it took the Town at least 6 months to identify the problem.
  - It appears significant money was sitting in a "demand deposit" account, earning no interest.
  - Even if the Town missed it, why didn't the financial institution or more importantly, the investment manager catch the error—there was an extra \$12M sitting in a demand account at 6/30/16 and no one identified it or at least called it to the Town's attention?
  - Fortunately, no one took advantage of the situation so no money was lost other than the opportunity loss of the interest sitting in a demand account

- **Item 2 of the Agenda** asks the Finance Committee to “receive” the fiscal Q1 16/17 report and the 5 months of Reconciled Demand Account Balances. Their appears to be a significant inadequacy of internal controls. At a minimum I would expect the Finance Committee would want to report this to the TC. I would expect the Finance Committee would want to get greater assurance that the restated numbers are now accurate.
  - I could imagine the Finance Committee would want to talk with the Town’s independent auditors to get their take on how this happened.
  - If this is a material inadequacy in internal control, I believe the independent account needs to report it as such. The Finance Committee would want to know if this was going to happen
  - I would expect the Finance Committee to issue a written or oral report to the TC explaining the restatements for 5 months.
  - It would be hard to accept the report without getting comfortable in some way that the restated numbers are accurate and that new procedures are in place to ensure this does not happen again

### **Agenda Item 3: Quarterly Budget Performance & Operating Report**

- On a positive note--the unaudited fiscal 15/16 showed an operating surplus of \$2.66M after setting aside \$2.88M of other uses (which included \$2.52M to the “Almond Grove Reserve”
  - But a question: Where is the additional \$300K to be set aside in the “CalPERS Reserve” per TC authorization?
  - Why is there not a reserve for post-retirement medical when this was recorded \$400,000 as an assigned general fund reserve as of June 30, 2015. Has there been a change in spending intent?
  
- **On a positive note**—the Town is reporting the components of the General Fund Reserve in accordance with GASB #54, separately identifying Committed and Assigned Reserves and the remaining Unassigned Reserve (See “Box”)
  - But a question—Why is the Almond Grove Reserve so much less that the \$12.2M adopted at the October 28, 2015 Council Meeting? Has the Town already spent \$3.7M?
  - Another question—Both the Almond Grove Reserve and the CalPERS Reserve were established by TC resolutions, yet the former is reported as Committed and the latter is presented as Assigned. Why are they reported differently and how can we establish consistency?
  - In the 6/30/16 General Fund balance , where is the reserve for Compensated Absences (\$1,692K after being reduced by \$589K to fund

Almond Grove) and Vasona Land Sale (\$411K) per the Oct 28, 2015 Council Resolution?

- Do we therefore need to make up that difference, and if so, how and when will that happen?
- The June 2016 General Fund Reserve Report reflects the components in accordance with GASB #54 while the 2015 report reflects the components using a former standard—Could we please receive a reconciliation from the 2015 reserve presentation/classification to the 2016 reserve presentation/classification?
- How do the reported Q1 '16/'17 amounts reflect the unresolved employee wage negotiations? If an estimate is not provided, will the numbers be restated at a later date?
- Since the fiscal 15/16 audit has not been complete the reported numbers are unaudited, are there any remaining open audit issues at this point and if so, what are they? When do you expect the 2015/16 numbers to be finalized?
- What do you see as the area of greatest financial risks for the remainder of fiscal 16/17? General[Possible answers could be i) continuing decline in sales tax, ii) legal fees on North 40, iii) increased expense related to employee post-retirement benefits (pensions & OPEB), iv)...
- Just to note:
  - Per page 6, the Q1 16/17 sales tax income of \$2,081K includes a one-time "triple flip" true up" payment of \$900K. If this is netted out, the apples to apples Q1 numbers for 2015 and 2016 are \$871K for fiscal 2015 and 1,182K for 2016
  - Per page 14, the left most column reflects the unaudited fiscal 2015/16 excess of revenues over expenses of \$2.666M
  - Per page 14, the 3<sup>rd</sup> column from left and 6<sup>th</sup> column from left compare Q1 fiscal 2016 to Q1 fiscal 2017. 2016 had a deficit of \$1,406K and 2017 had a deficit of \$1,185K. The Q1 2016 deficit would have been \$2,085K if it weren't for the one-time \$900K triple flip payment explained on page 6. I don't know if Q1 2016 had any unusual items or the year to year increase in Q1 deficit of \$679K is significant or if it's even an apples to apples comparison.
  - Per page 14, the 16/17 annual budget includes a revenue source of \$8,459K for Almond Grove Project and \$1.4M for Capital Projects
  -
- If the answers to the questions make sense, I see no reason why the Finance Committee should not "receive" the fiscal Q1 16/17. But then I'm not sure what "receive" means. I would expect the Finance Committee to issue a written or oral report to the TC to explain the major changes in Q1 2016/17 which would include:
  - Unaudited 2015/16 results show an excess of revenue over expenditures of \$2.666M

- Adoption of GASB 54 for General Fund reserve reporting to Town Council to be consistent with audited CAFR reporting which adopted GASB 54 in the 2012 CAFR One time \$900K triple flip sale tax revenue
- An apples to apples year over year Q1 comparison showing a \$679K greater Q1 deficit
- Anticipated employee costs do (do not) reflect the expected outcome of union negotiations.
- Report that the audit is not completed and that it is expected that it would be completed approximately XXXX
- On page 16 of the budget performance report, the GFAR Fund beginning balance is \$14.7m. If you add the budgeted revenues of \$11.3m and deduct the budgeted expenditures of \$25.3m from the beginning balance, this suggests the ending balance will be \$807k. Does the Town think that this is sufficient fund level to fund the future capital requirements for the Town? What should a "normal" level be for the GFAR balance be as we exit FY 2016?
- Why we would focus on this is that the Town has already disclosed in the 2016 Capital Plan that there is over \$10m in unfunded street maintenance projects. It is hard for us to believe that drawing the GRAR down to \$807,880 is prudent management. We are assuming that the entire budgeted expenditures actually get spent this year.

Terry Duryea, Jak VanNada, Peter Hertan, Lee Fagot



**TOWN OF LOS GATOS  
FINANCE COMMITTEE REPORT**

MEETING DATE: 11/21/2016

ITEM NO: 3

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DATE: NOVEMBER 17, 2016  
TO: COUNCIL FINANCE COMMITTEE  
FROM: LAUREL PREVETTI, TOWN MANAGER  
SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO RECEIVE THE FISCAL YEAR 2016/17 FIRST QUARTER BUDGET PERFORMANCE AND STATUS REPORT FOR THE PERIOD JULY 1, 2016 – SEPTEMBER 30, 2016

**RECOMMENDATION:**

Staff recommends that the Council Finance Committee forward a recommendation to the Town Council to receive the Fiscal Year (FY) 2016/17 First Quarter Budget Performance Report for the period July 1, 2016 through September 30, 2016.

**EXECUTIVE SUMMARY:**

This report has two primary goals. First, the report informs the Town Council Finance Committee on the status of the Town's Fiscal Year 2016/17 Adopted Budget revenues and expenditures during the first quarter. Second, staff provides the Town Council an update on the preliminary General Fund financial results (unaudited) as of June 30, 2016.

**BACKGROUND:**

The attached Quarterly Budget Report covers the first three months of the fiscal year beginning July 1, 2016 and ending September 30, 2016. The report presents an analysis related to key General Fund revenues by category and expenditures by fund.

Staff provides the Town Council periodic updates on the status of the current year's adopted budget revenues and expenditures, and the projected financial condition of Town funds, concentrating on the Town's General Fund. Though financial results are limited to the first

**PREPARED BY:** STEPHEN CONWAY  
FINANCE DIRECTOR

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Reviewed by: Town Manager, Interim Assistant Town Manager

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BACKGROUND (cont'd):

three months, staff is able to provide an update based on early revenue trends for the current fiscal year, and advise on potential future revenue and expenditure challenges which may materialize during the fiscal year.

DISCUSSION:

The attached First Quarter Budget Report includes a recap (subject to final audit) of the prior fiscal year's General Fund fiscal results. The preliminary fund balance of approximately \$2.6 million in FY 2015/16 revenues above expenditures is reflective of a number of events impacting the year end results. The \$2.6 million is derived from \$1.2 million in personnel vacancy savings; \$1 million from General Fund revenues coming in stronger than expected including transient occupancy tax, business license tax, property tax, and development related licenses and permit revenues; and \$400,000 in one-time unexpected surplus Educational Revenue Augmentation Fund (ERAF) revenues.

The final year end reserve balance calculations for FY 2015/16 incorporate amounts assigned for Council-authorized uses including \$300,000 for the CalPERS Reserve, \$100,000 for legal services for North 40 lawsuit, and \$34,414 for additional funding for the Pageant Way Parking Lot improvements.

An analysis of FY 2016/17 General Fund revenues confirms that the Town is tracking slightly above budgeted revenues for the first quarter when compared to prior years. Key economic revenues such property tax, business license tax, franchise fees, and transient occupancy tax have all experienced increases from prior year first quarter results, while development-related fees decreased. It should be noted that while the first quarter FY 2016/17 sales tax proceeds show significant increase, the general sales tax revenue is declining. The first quarter FY 2016/17 sales tax proceeds include the final, one-time "triple flip" true up adjustment of sales tax from prior fiscal years.

Staff also reviewed first quarter budget results for all Town departments and found that General Fund expenditures are trending well below budgeted levels. Staff cautions that first quarter results cannot be relied on for projecting year end results since this report only covers the first three months of the fiscal year.

PAGE 3 OF 3

SUBJECT: FISCAL YEAR 2016/17 FIRST QUARTER BUDGET PERFORMANCE AND STATUS  
REPORT FOR THE PERIOD JULY 1, 2016 – SEPTEMBER 30, 2016

DATE: NOVEMBER 21, 2016

CONCLUSION:

While the long-range outlook for the Town indicates a positive fiscal year ahead, evidenced prior year favorable closing results and positive first quarter preliminary data, staff will continue its conservative fiscal planning efforts to monitor expenditures and the Town's economically sensitive revenues.

CONCLUSION AND RECOMMENDATION:

The Council Finance Committee is welcome to ask questions and listen to public testimony regarding this item. Staff recommends that the Council Finance Committee forward a recommendation to the Town Council to receive the First Quarter Budget Performance and Status Report for the period July 1, 2016 – September 30, 2016

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. Budget Performance Report for the Three Months Ended September 30, 2016.



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

## INTRODUCTION

### Purpose

This is the first quarterly budget performance report for Fiscal Year 2016/17, for the three month period ending September 30, 2016. The purpose of this quarterly public reporting is twofold. First, it ensures that the Town is consistently monitoring its revenues and expenditures so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, these reports increase the transparency of the Town’s finances. The Town is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and quarterly public reporting provides the Council Finance Committee and taxpayers with information that demonstrates the Town is meeting this standard.

### Content

This quarterly report presents an overview of the Town’s operating revenues and expenditures for the quarter ending September 30, 2016, as compared to previous years, and explains any notable changes or trends in these numbers. This report also provides information on any recommended budget adjustments.

### Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures are final until the Town has completed its annual comprehensive audit and finalized its Comprehensive Annual Financial Report (CAFR), which is released in the winter of each year for the prior fiscal year.

**With respect to revenues:** The Town regularly monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect Town revenues in order to develop a more accurate picture of the Town’s anticipated year-end financial position.

**With respect to expenditures:** The expenditure information in this report is extracted directly from the Town’s financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between Town departments and funds that have not yet been processed in the system at the time of publication. It represents a snapshot of Town expenditures at a certain point in time and does not reflect final adjustments made to prepare the Town’s CAFR.

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# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

## EXECUTIVE SUMMARY

### Status of FY 2016/17 Adopted Budget

First quarter revenues are generally trending higher when compared to the first quarter of Fiscal Year 2015/16. Key economic revenues such property tax, business license tax, franchise fees, and transient occupancy tax have all experienced increases from prior year first quarter results, while development-related fees decreased. It should be noted that while the first quarter FY 2016/17 sales tax proceed shows significant increase, the general sales tax revenue is declining. The first quarter FY 2016/17 sales tax proceeds include a one-time “triple flip” true up adjustment of sales tax from prior fiscal years.

General Fund expenditure totals for the first quarter are trending favorably, with total operational expenditures at the end of the first quarter at about 19% of the budget. With only three months of data available, however, it is difficult to predict revenues and expenditures for the remainder of the year. In light of this, staff continues to be cautiously optimistic while monitoring fiscal developments very closely.

### Prior Fiscal Year Closing Results

The Fiscal Year 2015/16 closing financial results affirm the positive effects of the Town’s budgetary actions taken in response to prior downturns in key operating revenues. Conservative budgeting, vacancy savings, receipt of “one-time” revenues, and a recovering economy, coupled with ongoing Town-wide expenditure reductions, generated a favorable General Fund closing balance of approximately \$2.6 million of available revenues over expenditures at fiscal year-end, June 30, 2016. This amount is preliminary and subject to final audit.

### General Fund Reserve Status - 6/30/16

General Fund reserves are classified into categories – Restricted, Committed, Assigned, and Unassigned.

Restricted reserves are those which are restricted in use by accounting standards or legal agreements and are not considered as available for use for another purpose. With the dissolution of the Town of Los Gatos Redevelopment Agency (RDA), the Town no longer has restricted reserves. Committed reserves are established by Council Policy for an intended purpose. Assigned fund balance describe a portion of fund balnce that reflects a government’s intended use of resources. Unassigned fund balance is available for appropriation

General Fund Reserves closed on June 30, 2016 with a balance of approximately \$27.7 million in committed and assigned reserves which is in accordance with Town financial policies and operating and capital budget requirements.

	6/30/2016 Amount (millions) Estimated
<b>General Fund Reserves</b>	
<b>Committed</b>	
Budget Stabilization Reserve	\$4.4
Catastrophic Reserve	\$4.4
Almond Grove Reserve	\$8.5
<b>Assigned</b>	
Carryforward Appropriation	\$0.1
CalPERS Reserve	\$2.8
Capital Improvements	\$3.7
Open Space	\$0.6
Special Studies	\$0.3
Sustainability Reserve	\$0.2
FY 2016/17 Commitments	\$0.1
<b>Available for Allocation (Subject to Final Audit)</b>	<b>\$2.6</b>
<b>Total Designated General Fund Reserves</b>	<b>\$27.7</b>

The Budget Stabilization Reserve was established to serve as a transitional “bridge” funding source to mitigate or smooth out cyclical ups and downs in locally generated revenues due to fluctuations in the local economy or “one-time” revenue losses where the revenue base is likely to be restored in the near future. The Catastrophic Reserve was established to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Per Reserve Policy the combined total of these two reserves is 25% of the General Fund operating expenditures.

The CalPERS Reserve was established to mitigate the the Town’s unfunded pension liabilities in June 2016.



## BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

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According to the June action, Council directed staff to establish a CalPERS Reserve up to \$2.5 million funded from available FY 2014/15 year end savings with an additional annual payment of \$300,000 if available at year-end savings.

The reserve for Capital and Special Projects, funded from annual available General Fund budget savings, serves as the primary source for replenishment to the Town's General Fund Appropriated Reserves (GFAR), which is the Town's Capital Improvement Fund. This reserve functions as a potential funding source for new capital projects or augmentations to authorized projects funded through the Town's Five Year Capital Improvement Program (CIP). Out of the \$3.7 million available in Capital Improvement reserve \$1.4 million is already committed for capital projects spending in FY 2016/17.

The availability of approximately \$27.7 million in committed, assigned, and currently unassigned General Fund reserves provides the Town with resources to manage through current and/or future fiscal challenges and opportunities. The \$2.6 million unassigned fund balance per Reserve Policy will be added to the Capital Improvements Reserve at the final close of the fiscal year unless there is different Council direction.

### U.S. Economic Outlook

The Congressional Budget Office (CBO) anticipates that the economy will expand at a solid pace over the next few years. Real Gross Domestic Product (GDP) is anticipated to grow by about 2% in 2016 and by 2.4% in 2017. Economic growth is expected to slow in 2018.

According to CBO's estimates, the growth in output will heighten demand for labor over the next year and a half, leading to solid employment gains and eliminating labor market slack in 2017, thereby putting upward pressure on wages. The agency projects that the unemployment rate will fall below the estimated natural rate of unemployment bottoming out at 4.5% in the fourth quarter of 2017. Increased hiring will also encourage more people to enter or stay in the labor force.

The CBO also estimates that the rate of inflation in the price index for personal consumption expenditures will rise to 1.5% from 0.5% in 2015. In 2017, the rate of inflation is projected to rise to the Federal Reserve's longer-run goal of 2.0%. In 2017, the rate of inflation is projected to rise to the Federal Reserve's longer-run goal of 2.0%.

The CBO expects that the interest rates on Treasury securities, which have been exceptionally low since the recession, will remain lower than they were, on average, in previous decades.

In addition, federal lawmakers still face the longer-term budget issues posed by the large projected national debt and the implementation of rising health care costs and the aging population.

The US Department of Commerce reported that home construction rose 4.4% since last year.

### State Budget Update

Since 2011, the State of California's fiscal situation has dramatically turned around. As the State's economy has recovered, the past three budgets have restored some previous budget cuts and expanded services, such as extending health care coverage to millions of Californians. In addition, the State has paid down its budgetary borrowing and addressed some long standing problems - such as implementing a plan to restore fiscal health to teacher pensions, and making major improvements to the state's water system. A strengthening state economy is continuing to push revenues higher. The State's unemployment rate is below 6% for the first time since 2007. In 2015, capital gains - the state's most volatile revenue source - reached an alltime high. The economy is finishing its seventh year of expansion, already two years longer than the average recovery. While the timing is uncertain, the next recession is getting closer, and the state must begin to plan for it. If new ongoing commitments are made now, then the severity of cuts will be far greater - even devastating - when the recession begins.

# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

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## GENERAL FUND – KEY REVENUE ANALYSIS

The following discussion provides a status of significant General Fund revenue sources as of the first quarter, ending September 30, 2016.

Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget action.



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

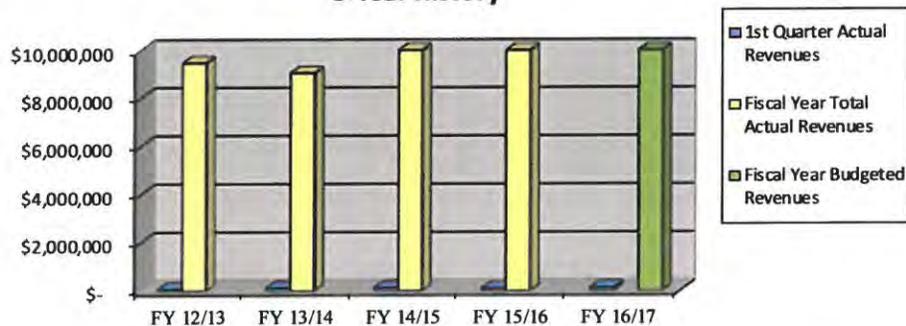
## Property Tax

Property tax is the largest revenue source for the Town’s General Fund, accounting for 27.6% of budgeted General Fund revenues in FY 2016/17. Property tax is levied by the Santa Clara County Assessor’s Office at 1% of a property’s assessed value, of which the Town receives approximately 9.5 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by 2% inflation factor thereafter. However, when property changes hands or new construction occurs, property is reassessed at its current market value. Real property values critically impact revenues. With the passage of Proposition 13, voters limited the tax rate that can be imposed by the Town on property. With the limitation on rates, therefore, higher revenues are generated by a higher aggregate property value.

**Analysis** – Property Tax distributions are largely received in the third and fourth quarters. First quarter receipts are slightly up when compared to the first quarter of the previous fiscal year. Property tax budget projections are based on valuations projected by the Santa Clara County Assessor’s Office, given increased home sales, coupled with anticipated adjustments in property tax distribution due to the dissolution of California Redevelopment Agencies. Property tax revenue for FY 2016/17 was budgeted slightly lower than previous year’s actual revenues based on these facts and projected Consumer Price Index rate. Prior year property tax revenues are up due to receipt of “one-time” excess Educational Revenue Augmentation Funds (ERAF) from the County and higher than expected property transfer tax collection. Staff will continue to monitor these revenues through the mid-year to determine if a budget adjustment will be recommended at that time.

## PROPERTY TAX

**Quarterly and Annual Revenues  
5-Year History**



	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
1st Quarter Actual Revenues	\$ 76,842	\$ 123,394	\$ 125,091	\$ 109,027	\$ 134,884
Fiscal Year Total Actual Revenues	\$ 9,477,043	\$ 9,054,908	\$ 10,113,287	\$ 10,791,743	
Fiscal Year Budgeted Revenues					\$ 10,458,633
1st Quarter Percent of Total	0.81%	1.36%	1.24%	1.01%	1.29%

**Recommended Budget Revision** **No Change**



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

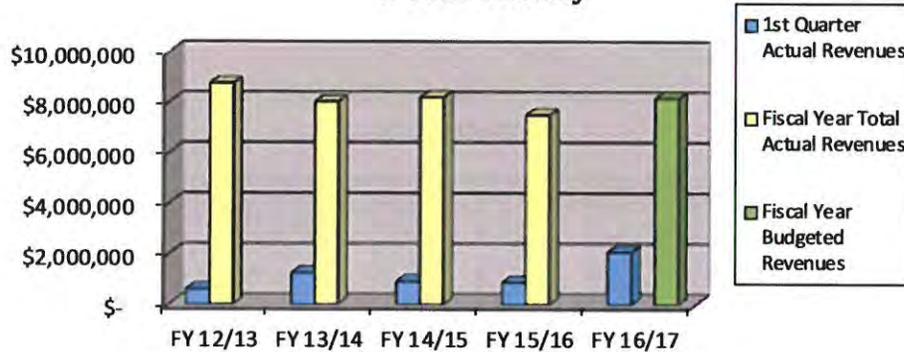
## Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 21.6% of budgeted General Fund revenues for FY 2016/17. The Town receives 1 cent for every 8.75 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos. Since the implementation of the mechanism commonly known as the “triple flip,” the State Board of Equalization retains 0.25 cents of the Town’s 1-cent share and requires the Santa Clara County Auditor to replace it with an equal amount of property tax revenue. Revenues are remitted from the State to the Town on a monthly basis, and from the County to the Town on a biannual basis. FY 2016/17 marks the final “final triple flip” true-up payment. From FY 2016/17 the State Board of Equalization will distribute the full 1 percent sales tax share to the Town. These revenues are placed in the General Fund for unrestricted uses.

**Analysis** –Based on the most recent Sales Tax and Economic Review update from Muni Services, the Town’s sales tax analysis consultant, first quarter sales tax receipts statewide grew by 1.2%, while the Town of Los Gatos sales tax revenues declined by 4.7%. First quarter actual proceeds include \$900,000 final “triple-flip” true-up payment from previous fiscal years including FY 2015/16; as it demonstrated in the graph below the FY 2015/16 proceeds were less since the final triple-flip payment got distributed in FY 2016/17. The negative impact associated with the Netflix change in business model continues to impact the Town as is the trend of increased on-line retail versus local mortar and brick shopping compounded by lower gasoline prices.

## SALES TAX

**Quarterly and Annual Revenues  
5-Year History**

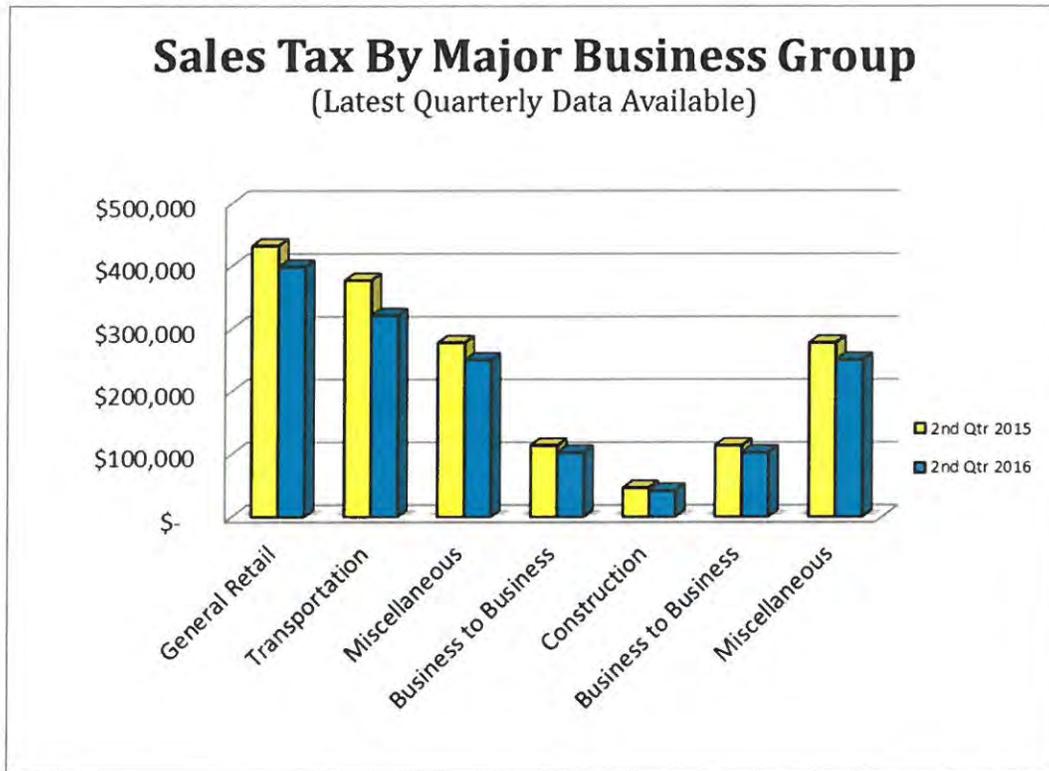


	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
1st Quarter Actual Revenues	\$ 601,176	\$ 1,243,903	\$ 914,843	\$ 871,410	\$ 2,081,617
Fiscal Year Total Actual Revenue	\$ 8,757,428	\$ 8,029,571	\$ 8,202,678	\$ 7,501,175	
Fiscal Year Budgeted Revenues					\$ 8,164,403
1st Quarter Percent of Total	6.86%	15.49%	11.15%	11.62%	25.50%
<b>Recommended Budget Revision</b>					<b>No Change</b>



## BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

As depicted in the graph there is decrease in all the categories of the sales tax revenue when compared to same quarter results from the prior fiscal year.



Staff will continue to monitor these revenues through the mid-year to determine if a budget adjustment will be recommended at that time.



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

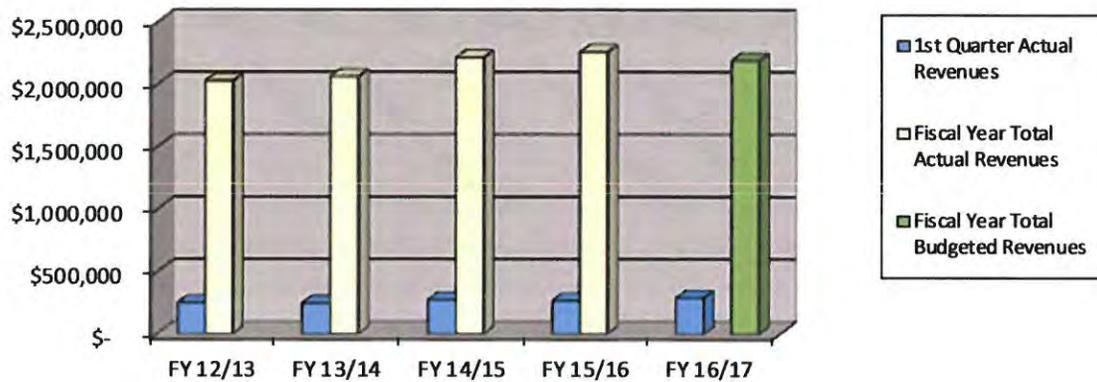
## Franchise Fees

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services. Franchise fees represent 5.8% of budgeted General Fund revenues in FY 2016/17.

**Analysis** – Historically, franchise payments are not remitted equally throughout the fiscal year; therefore first quarter receipts are not necessarily predictive. Total franchise fee revenues are trending slightly higher than those in first quarter in FY 2015/16. Staff will continue to monitor trending of this revenue source and no budget adjustment is recommended at this time.

## Franchise Fees

**Quarterly and Annual Revenues  
5-Year History**



	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
1st Quarter Actual Revenues	\$ 251,349	\$ 247,426	\$ 275,097	\$ 266,431	\$ 290,727
Fiscal Year Total Actual Revenues	\$ 2,028,903	\$ 2,063,756	\$ 2,215,430	\$ 2,258,892	
Fiscal Year Total Budgeted Revenues					\$ 2,191,120
1st Quarter Revenue Percent of Total	12.39%	11.99%	12.42%	11.79%	13.27%

**Recommended Budget Revision** **No Change**



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

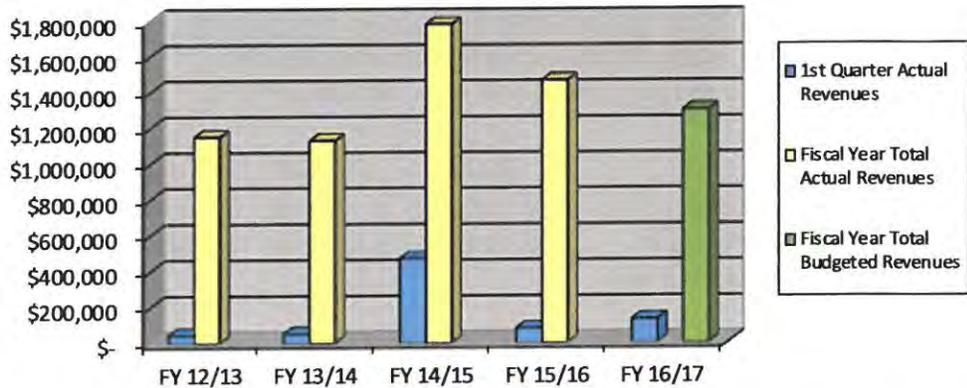
## Business License Tax

The Town requires all businesses located within Los Gatos, or those that operate within Los Gatos, to obtain a business license. The amount of business license tax paid by each business is based on its business activity. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, but retail business licenses are capped at \$975. These activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee business licenses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are pro-rated by quarter.

**Analysis** – As a result of the projected increase in economic activity, business license tax revenue for the current fiscal year was budgeted slightly higher than prior year budgeted number. First quarter revenues are significantly lower compared to prior year first quarter revenue, however first quarter revenue is trending higher when compared to revenues prior to FY 2014/15. FY 2014/15 actual revenues reflected below include a one-time prior year adjustment for business license tax collection from Netflix. This adjustment was due to a reclassification that happened in the first quarter of FY 2014/15. Generally the first quarter payments are primarily made up of adjustments to businesses’ gross receipts for 2015. The FY 2016/17 first quarter receipt reflects the proceeds from Netflix 2015 actual positive gross receipt adjustments. Annual business license tax renewal revenue is primarily received in the second and third quarters of each year; therefore, first quarter performance is not necessarily predictive.

## Business License Tax

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 44,393	\$ 52,124	\$ 472,024*	\$ 82,439**	\$ 131,955
Fiscal Year Total Actual Revenues	\$ 1,151,579	\$ 1,130,020	\$ 1,779,307	\$ 1,465,547	
Fiscal Year Total Budgeted Revenues					\$ 1,300,000
1st Quarter Revenue Percent of Total	3.85%	4.61%	26.53%	6.63%	6.60%

**Recommended Budget Revision** **No Change**

\* Includes "one-time" prior years adjustments due to Netflix recalsification to E-Commerce business

\*\* Includes 2014 actual gross receipt adjustment for Netflix at the first time



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

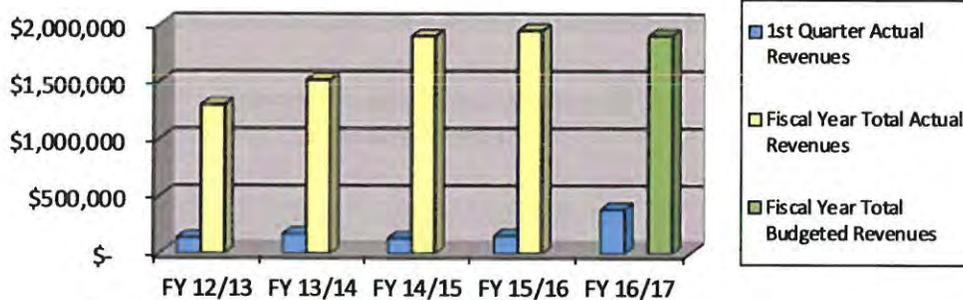
## Transient Occupancy Tax

The Town levies a 10% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. This tax helps to fund Town services provided to transitory visitors to Los Gatos. At the November 8, 2016 election the Town of Los Gatos residents approved a ballot measure increase the TOT from 10% to 12%. This measure is still subject to certification that will happen in December 2016.

**Analysis** – Visit California, formerly the California Travel and Tourism Commission, reports that the total number of visitors to California grew 3.4% in 2015. The forecast for California visitation is increasing by 2.2% in 2016. Personal and business related travel is gaining strength. First quarter TOT revenues are trending significantly higher than the first quarter of FY 2015/16 due to the fact that one of the hotel paying the TOT monthly instead of quarterly.. Staff will continue to monitor this funding source and based on the certification of the elction and the upated trend will recommend a budget adjustment at the time mid year budget review.

## Transient Occupancy Tax

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 135,452	\$ 169,632	\$ 132,202	\$ 153,102	\$ 385,811
Fiscal Year Total Actual Revenues	\$ 1,295,887	\$ 1,512,846	\$ 1,896,721	\$ 1,943,166	
Fiscal Year Total Budgeted Revenues					\$ 1,900,000
1st Quarter Revenue Percent of Total	10.45%	11.21%	6.97%	7.88%	20.31%

<b>Recommended Budget Revision</b>	<b>No Change</b>
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# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

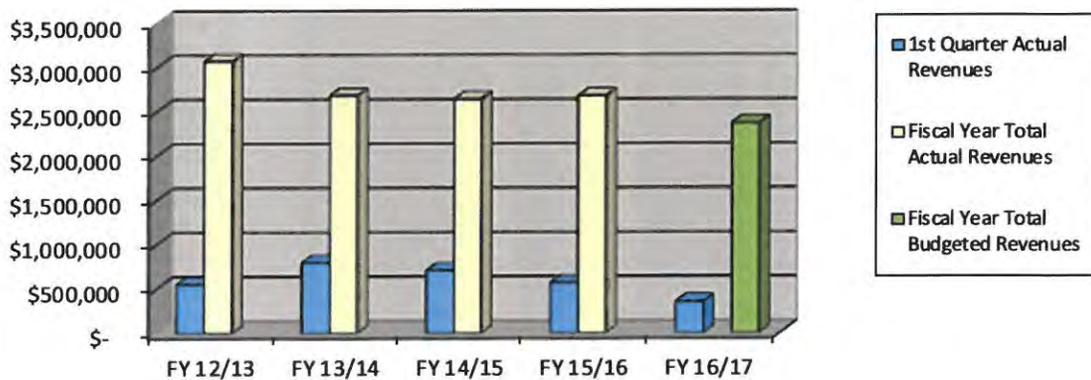
## Charges for Services

Town service revenues consist primarily of planning, building, inspections, and engineering fees assessed on local building and development activity. Development fees and charges are assessed based on recovery formulas, which reflect approximate costs of providing these regulatory services.

**Analysis** – First quarter Town service revenues, specifically Charges for Services, are trending significantly lower than first quarter results from the previous fiscal year. Development permits revenues are projected to be lower than last fiscal year due to the slowing down of large scale building projects. Staff will continue to monitor this revenue source, however no budget revisions are recommended at this time.

## Charges for Services

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 552,150	\$ 795,289	\$ 706,139	\$ 567,913	\$ 352,063
Fiscal Year Total Actual Revenues	\$ 3,070,127	\$ 2,684,126	\$ 2,643,276	\$ 2,677,944	
Fiscal Year Total Budgeted Revenues					\$ 2,370,070

1st Quarter Revenue Percent of Total	17.98%	29.63%	26.71%	21.21%	14.85%
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<b>Recommended Budget Revision</b>	<b>No Change</b>
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# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

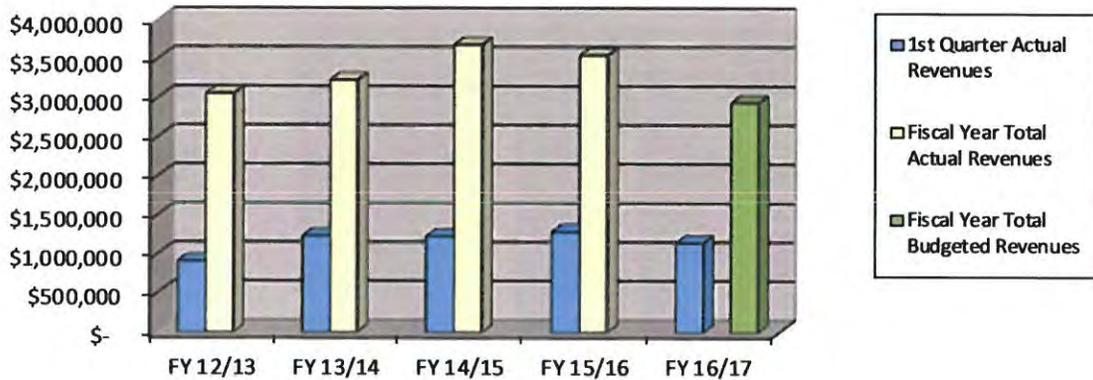
## Licenses and Permits

Licenses and permits consist mainly of Building Permit fees which are collected by the Town to offset administrative costs associated with overseeing the proper permitting aspects of development.

**Analysis** – First quarter License and Permit revenue is trending lower than first quarter results from the previous fiscal year. First quarter collections include approximately \$400,000 deferred revenues from FY 2015/16 collections as some of the big-scale development project started in last year were not completed in FY 2015/16. Staff will continue to monitor this funding source closely to assess the need for mid-year budget adjustments; however no budget revisions are recommended at this time.

## Licenses & Permits

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 912,238	\$ 1,237,390	\$ 1,229,462	\$ 1,289,988	\$ 1,149,167
Fiscal Year Total Actual Revenues	\$ 3,060,948	\$ 3,235,122	\$ 3,687,393	\$ 3,552,935	
Fiscal Year Total Budgeted Revenues					\$ 2,946,583
1st Quarter Revenue Percent of Total	29.80%	38.25%	33.34%	36.31%	39.00%

**Recommended Budget Revision** **No Change**



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

## Interest Income

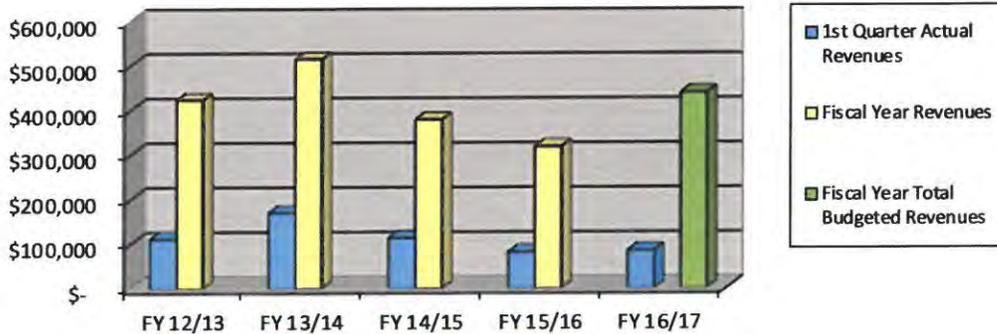
The Town earns interest income by investing monies not immediately required for daily operations in a number of money market instruments. These investments are made within the parameters stated in the Town Council's Investment Policy. The Town's investment goal is to achieve a competitive rate of return while protecting the safety of its funds. Interest income revenue is primarily dependent on two factors: first, the cash balance in the Town's investment portfolio and second, the yield on those funds.

**Analysis** – First quarter receipts are trending slightly above those in the same period in the prior fiscal year, largely because of small rises in interest rate levels experienced during the past twelve months. The Town's investment advisors expect interest rates to rise gradually in calendar year 2017. The increase of the interest earnings experienced this fiscal year as of first quarter are reflective of the Town's total portfolio yield increasing from 0.81% as of September 30, 2015 to the current yield of 0.84% as of September 30, 2016 as reflected in the Town Q1 Draft Investment Report.

The strategy for the foreseeable future continues to be to remain fairly short-term and to invest in callable agency bonds in order to attempt to pick up a few basis points over non-callable agencies and treasuries. Treasuries are being added into the mix of investments to attempt to keep the portfolio somewhat balanced, even though this has the effect of lowering the overall rate of return. The Town also attempts to find good solid corporate bonds when possible. There are no recommended changes to this revenue source at this time.

## Interest Income

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
1st Quarter Actual Revenues	\$ 111,401	\$ 169,558	\$ 113,313	\$ 81,671	\$ 84,965
Fiscal Year Revenues	\$ 422,840	\$ 514,380	\$ 379,154	\$ 317,766	
Fiscal Year Total Budgeted Revenues					\$ 438,880
1st Quarter Revenue Percent of Total	26.3%	33.0%	29.9%	25.7%	19.4%
<b>Recommended Budget Revision</b>	<b>No Change</b>				



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

## FINANCIAL SUMMARIES, PROJECTIONS, AND RECOMMENDATIONS

### General Fund



The following table in the next page is the *Schedule of General Fund Operating Revenues versus Operating Expenditures* for the first quarter of FY 2016/17, which includes comparison information from the prior year. In the far right column are projections of unaudited, final balances for the current fiscal year based upon the early trends observed through the first quarter.

**Town of Los Gatos**  
**Schedule of General Fund**  
**Operating Revenues vs. Operating Expenditures**  
**For the period ended September 30, 2016**

	Unaudited FY15/16 Final Balance	FY15/16 Adjusted Budget	FY15/16 1st Qtr Actuals	FY15/16 % YTD	FY16/17 Adopted Budget	FY16/17 Adjusted Budget	FY16/17 1st Qtr Actuals	FY16/17 % YTD	FY16/17 Finance Projection
<b>Revenues</b>									
General Property Tax	\$ 10,791,743	\$ 10,269,397	\$ 109,027	1%	\$ 10,458,633	\$ 10,458,633	\$ 134,884	1%	\$ 10,458,633
Prop Tax Car Tax Backfill	-	-	-	-	-	-	-	-	-
Sales & Use Tax	7,501,175	8,126,309	871,410	11%	8,164,403	8,164,403	2,081,617	25%	8,164,403
Franchise Fees	2,258,892	2,127,660	266,431	13%	2,191,120	2,191,120	290,727	13%	2,191,120
Transient Occ Tax	1,943,166	1,800,000	153,102	9%	1,900,000	1,900,000	385,811	20%	1,900,000
Business License Tax	1,465,547	1,300,000	82,439	6%	1,300,000	1,300,000	162,127	12%	1,300,000
Licenses & Permits	3,552,935	3,076,162	1,289,988	42%	2,946,583	2,946,583	1,149,167	39%	2,946,583
Motor Vehicle In Lieu	2,984,023	2,833,750	-	0%	3,013,840	3,013,840	-	0%	3,013,840
Intergovernmental	972,199	930,994	32,711	4%	717,684	717,684	52,806	7%	717,684
Charges for Services	2,677,944	2,786,451	567,913	20%	2,370,070	2,370,070	352,063	15%	2,370,070
Fines & Forfeitures	858,929	666,300	151,807	23%	650,900	650,900	176,271	27%	650,900
Interest	317,766	424,140	81,766	19%	438,880	438,880	84,956	19%	438,880
GASB Investment To Market Per Audit	310,008	(104,550)	239,189	-229%	(107,687)	(107,687)	-	0%	(107,687)
Miscellaneous/Other	3,605,671	4,706,827	1,226,655	26%	3,421,579	3,421,579	2,771,638	81%	3,421,579
Fund Transfers (Non Capital)	329,722	454,218	57,467	13%	363,428	363,428	59,302	16%	363,428
Fund Transfer (Capital)	2,516,795	-	-	-	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>42,086,515</b>	<b>39,397,658</b>	<b>5,129,905</b>	<b>13%</b>	<b>37,829,433</b>	<b>37,829,433</b>	<b>7,701,369</b>	<b>20%</b>	<b>37,829,433</b>
<b>Use of Other Funding Sources:</b>									
Use of Reserves - Capital Projects	-	-	-	-	1,400,000	1,400,000	-	-	1,400,000
Almond Grove Reserve	-	-	-	-	8,459,973	8,459,973	-	-	8,459,973
Carryforward Reserve	-	-	-	-	-	-	-	-	-
Special Studies	-	-	-	-	-	-	-	-	-
<b>Total Other Funding Sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,859,973</b>	<b>9,859,973</b>	<b>-</b>	<b>-</b>	<b>9,859,973</b>
<b>Total Revenues plus Reserves</b>	<b>\$ 42,086,515</b>	<b>\$ 39,397,658</b>	<b>\$ 5,129,905</b>	<b>-</b>	<b>\$ 47,689,406</b>	<b>\$ 47,689,406</b>	<b>\$ 7,701,369</b>	<b>-</b>	<b>\$ 47,689,406</b>
<b>Expenditures (includes c/f but no encumbrances)</b>									
Mayor & Council	171,530	184,557	36,895	20%	202,421	202,421	42,124	21%	202,421
Attorney	296,258	330,602	52,458	16%	347,006	347,006	65,620	19%	347,006
Administrative Services	2,883,289	3,183,780	632,146	20%	3,310,379	3,310,379	554,650	17%	3,310,379
Comm Development	4,032,333	4,435,444	664,751	15%	4,143,098	4,143,098	763,951	18%	4,143,098
Police	13,844,684	15,027,844	3,170,893	21%	13,920,048	13,920,048	3,356,742	24%	13,920,048
Parks & Public Works	6,226,196	6,613,251	1,101,052	17%	6,452,425	6,452,425	1,277,458	20%	6,452,425
Library	2,332,268	2,577,394	574,617	22%	2,691,849	2,691,849	484,283	18%	2,691,849
<b>Total Dept Expenses</b>	<b>\$ 29,786,558</b>	<b>\$ 32,352,872</b>	<b>\$ 6,232,812</b>	<b>19%</b>	<b>\$ 31,067,226</b>	<b>\$ 31,067,226</b>	<b>\$ 6,544,828</b>	<b>21%</b>	<b>\$ 31,067,226</b>
General Government	6,753,013	6,716,283	302,878	0	15,891,999	15,891,999	2,341,152	15%	15,891,999
<b>Total Non-Dept Expenses</b>	<b>\$ 6,753,013</b>	<b>\$ 6,716,283</b>	<b>\$ 302,878</b>	<b>5%</b>	<b>\$ 15,891,999</b>	<b>\$ 15,891,999</b>	<b>\$ 2,341,152</b>	<b>15%</b>	<b>\$ 15,891,999</b>
<b>Total Operating Expenditures</b>	<b>\$ 36,539,571</b>	<b>\$ 39,069,155</b>	<b>\$ 6,535,690</b>	<b>17%</b>	<b>\$ 46,959,225</b>	<b>\$ 46,959,225</b>	<b>\$ 8,885,980</b>	<b>19%</b>	<b>\$ 46,959,225</b>
<b>Other Uses</b>									
To Almond Grove Reserve	2,516,795	-	-	-	-	-	-	-	-
GASB 31 Adjust to Market Entry	310,008	-	-	-	-	-	-	-	-
Authorized Carryforwards	54,000	-	-	-	-	-	-	-	-
<b>Total Other Uses</b>	<b>2,880,803</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Other Expenditures and Uses</b>	<b>\$ 3,401,603</b>	<b>\$ 3,401,603</b>	<b>\$ 3,401,603</b>	<b>17%</b>	<b>\$ 46,959,225</b>	<b>\$ 46,959,225</b>	<b>\$ 8,885,980</b>	<b>19%</b>	<b>\$ 46,959,225</b>
<b>Net Operating Revenues</b>	<b>\$ 2,666,141</b>	<b>\$ 328,503</b>	<b>\$ (1,405,785)</b>	<b>-</b>	<b>\$ 730,181</b>	<b>\$ 730,181</b>	<b>\$ (1,184,611)</b>	<b>-</b>	<b>\$ 730,181</b>



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

The following financial summaries present data by governmental fund type: Special Revenue Funds, Capital Project Funds, Internal Service Funds, and Trust and Agency Funds. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

## Special Revenue Fund

Special Revenue Funds account for the proceeds derived from specific revenue sources that are legally restricted or assigned to special purposes. The Town’s Special Revenue Funds are Community Development Block Grant Fund, Housing Conservation Program Fund, Non-Point Urban Runoff Source Fund, and several Landscaping and Lighting District Funds. The revenue from the Non-Point Source Program fund continues to lag the expenses. This largely results from increased requirements associated with the Town’s storm water permit, including increased inspections and monitoring, trash reduction requirements, and administrative costs. Staff will develop a plan to move the program toward a sustainable cost recovery model as part of the FY 17/18 budget process. As indicated in the chart below, Non-Point Source fund balance is negative. It is anticipated that revenues for the Non-Point Source program will be received by the end of the second quarter and will be reflected in the mid-year budget report.

### Special Revenue Funds Budget to Actuals Comparisons

	CDBG Grants	Non-Point Source	LLD's
<b>Beginning Fund Balance (Pre-audit)</b>	<b>\$ 78,621</b>	<b>\$ 115,657</b>	<b>\$ 185,332</b>
Budgeted Revenues	70,000	367,464	38,416
<b>Total Actual Revenues - 1st Qtr</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Budgeted Expenditures	70,000	533,935	79,470
<b>Total Actual Expenditures - 1st Qtr</b>	<b>-</b>	<b>243,459</b>	<b>1,333</b>
<b>1st Quarter Ending Fund Balance</b>	<b>\$ 78,621</b>	<b>\$ (127,802)</b>	<b>\$ 183,999</b>



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

## Capital Projects Funds

Capital Projects Funds account for resources used for the acquisition and construction of capital facilities by the Town. Funds in this category are the General Fund Appropriated Reserve Fund (GFAR), Traffic Mitigation Fund, Grant Funded Capital Improvement Projects Fund, Utility Underground Fund, Gas Tax Fund, and three Storm Drain Funds. Capital Projects Funds are generally tracking in accordance with the FY 2016/17 adopted budget. Projects budgeted from Traffic Mitigation and utility Undergrounding sources are starting later this fiscal year. Staff will continue to monitor these expenditures throughout the remainder of the year.

### Capital Project Funds Budget to Actuals Comparisons

	GFAR Fund	Traffic Mitigation	Grant Fund CIP's	Storm Drains	Utility Undergd	Gas Tax
<b>Beginning Fund Balance</b>	\$14,781,907	\$ 2,596,834	\$ (379,926)	\$ 1,668,054	\$ 2,881,502	\$ 1,651,113
Budgeted Revenues	11,347,973	1,500,185	1,056,176	103,880	50,000	631,843
<b>Total Actual Revenues - 1st Qtr</b>	<b>126,676</b>	<b>-</b>	<b>-</b>	<b>44,661</b>	<b>3,649</b>	<b>169,807</b>
Budgeted Expenditures	25,322,000	1,500,185	994,443	-	70,000	2,043,905
<b>Total Actual Expenditures - 1st Qtr</b>	<b>222,098</b>	<b>54,385</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,347,629</b>
<b>1st Quarter Ending Fund Balance</b>	<b>\$14,686,485</b>	<b>\$ 2,542,449</b>	<b>\$ (379,926)</b>	<b>\$ 1,712,715</b>	<b>\$ 2,885,151</b>	<b>\$ 473,291</b>



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

## Internal Service Funds

Internal Service Funds finance and account for special activities and services performed by a designated Town department for other Town departments on a cost reimbursement basis. Included in this fund type are the Equipment Replacement Fund, Workers' Compensation Fund, ABAG Self Insurance Fund, Office Stores Fund, Management Information Systems Fund, Vehicle Maintenance Fund, and the Facilities Maintenance Fund.

Internal Service Funds are generally tracking in accordance with the FY 2016/17 adopted budget. No revisions to adopted revenues or expenditures are required at this time, and staff will continue to monitor expenditures and propose a revised cost allocation during FY 2017/18 budget preparation.

### Internal Service Funds Budget to Actuals Comparisons

	Equipment Replacemt	Workers Comp	Self Insurance	Office Stores	Mmgt Info Systems	Vehicle Maint.	Facility Maint.
<b>Beginning Fund Balance</b>	\$ 2,147,845	\$ 1,378,166	\$ 1,360,373	\$ 185,533	\$ 2,888,451	\$ 413,458	\$ 415,323
Budgeted Revenues	381,322	934,118	535,838	95,000	1,129,006	573,865	1,381,875
<b>Total Actual Revenues - 1st Qtr</b>	<b>95,331</b>	<b>261,432</b>	<b>134,845</b>	<b>1,999</b>	<b>226,496</b>	<b>143,466</b>	<b>285,743</b>
Budgeted Expenditures	336,369	1,258,810	808,361	134,500	1,351,188	573,866	1,381,875
<b>Total Actual Expenditures - 1st Qtr</b>	<b>122,107</b>	<b>313,309</b>	<b>442,976</b>	<b>24,521</b>	<b>242,840</b>	<b>98,260</b>	<b>225,164</b>
<b>1st Quarter Ending Fund Balance</b>	<b>\$ 2,121,069</b>	<b>\$ 1,326,289</b>	<b>\$ 1,052,242</b>	<b>\$ 163,011</b>	<b>\$ 2,872,107</b>	<b>\$ 458,664</b>	<b>\$ 475,902</b>



# BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

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## Trust and Agency Funds

Town Trust and Agency Funds have fund balances as of July 1, 2016 of \$524,453 for the Library Trust Funds and \$3,593,571 for Successor Agency Trust. No budget revisions are recommended at this time for these funds.

### Trust & Agency Funds Budget to Actuals Comparisons

	Library Trust	SA Trust
<b>Beginning Fund Balance</b>	\$ 524,453	\$ 3,593,571
Budgeted Revenues	69,150	3,872,939
<b>Actual Revenues - 1st Qtr</b>	<b>500</b>	<b>1,923,430</b>
Budgeted Expenditures	67,000	3,871,255
<b>Total Actual Expenditures - 1st Qtr</b>	<b>6,584</b>	<b>3,434,425</b>
<b>1st Quarter Ending Fund Balance</b>	<b>\$ 518,369</b>	<b>\$ 2,082,576</b>



## BUDGET PERFORMANCE REPORT – 1ST QUARTER FY 2016/17

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### CONCLUSION

The financial results from the prior fiscal year, coupled with the FY 2016/17 first quarter data, confirm the Town's continued conservative fiscal planning and efforts to sustain its economically sensitive revenues. Based on available information at the time of this report and expected receipts, the long-range outlook for the Town indicates that revenues continue to improve, with small excess revenues beyond expenditures forecasted. As the fiscal year progresses, staff will continue to closely monitor revenue and expenditure activity and work to identify opportunities to enhance revenue to support current and future operating capital needs.



**TOWN OF LOS GATOS  
FINANCE COMMITTEE REPORT**

MEETING DATE: 11/21/2016

ITEM NO: 3

DESK ITEM

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DATE: NOVEMBER 21, 2016  
TO: COUNCIL FINANCE COMMITTEE  
FROM: LAUREL PREVETTI, TOWN MANAGER  
SUBJECT: RECOMMENDATION TO THE TOWN COUNCIL TO RECEIVE THE FISCAL YEAR 2016/17 FIRST QUARTER BUDGET PERFORMANCE AND STATUS REPORT FOR THE PERIOD JULY 1, 2016 – SEPTEMBER 30, 2016

REMARKS:

Attachment 2 contains correspondence received after the Staff Report distribution. Staff is prepared to respond to all questions upon the Committee's request.

Attachments:

1. Budget Performance Report for the Three Months Ended September 30, 2016.

Attachments received with this Desk Item:

2. Public comment received before 11 a.m. on November 21, 2016.

PREPARED BY: STEPHEN CONWAY  
FINANCE DIRECTOR

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Reviewed by: Town Manager, Interim Assistant Town Manager

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11-21-16

## **Finance Committee Meeting re year end 2015-2016, and 1Q 2016-2017**

Attached is a short list and also a full list of questions that we have regarding the financial information to be discussed in the 11-21-16 meeting. The full list are additional questions, but those may be modified depending on the answers we get today. If this is the only opportunity we have to present questions, then the full list is attached at the bottom of this letter.

We think the end result of this work between Staff, the Finance Committee and us will help to bring the Los Gatos financials into compliance with GASB standards. Though we would like to have all questions answered in this session, we think our total list would look like we were piling on. We're not. We're concerned residents of Los Gatos.

One of our goals is to have a constructive and thought-provoking session, the answers of which will bring the town closer to full compliance with GASB, and eliminate errors in the future. Our other goal is to be helpful in solving the problems we have found and not to be viewed as a thorn in Staff's side. We all want to be proud of Los Gatos, and though the finances are generally not something the general public seeks to understand, they are very critical to the success of our town.

We feel that all of these questions, once answered, and any mistakes corrected, could help to make the Los Gatos financial reporting more valuable to the Council in the management of town finances. These answers and the corrections they should bring to the statements will provide more clarity and transparency for the citizens of Los Gatos.

This was promised to the town by both the Mayor Sayoc and Vice-Mayor Rennie in their acceptance speeches.

Jak VanNada, Lee Fagot, Terry Duryea, Peter Hertan

## The Abbreviated List:

### Agenda Item 2: First Quarter Investment Report AND Restated Demand Account Balances (February through June 2016)

- We would like to understand how the misclassification between the demand account and the fund balance that was \$12.4M by June 30, 2016 could go undetected for 5 months.
  - o We view this as serious for a number of reasons:
    - § If it was due to a lack of timely account reconciliations, the foundation of any system of internal control, this represents a serious breakdown in the Town's system of internal control
    - § If the money was sitting in a non-interest bearing demand account, the error resulted in a loss of investment return
    - § Although the Town missed it, why didn't the financial institution or more importantly, the investment manager catch the error?
    - § Does the independent auditor feel he will need to disclose this as a "material inadequacy in internal controls"?
    - § What changes in process and oversight are to be implemented to preclude similar future errors?
  
- Agenda Item 3: Quarterly Budget Performance & Operating Report
  - o The following questions relate to the "box" in the Executive Summary that provides the detail of the General Fund Reserves as of June 30, 2016 in accordance with GASB #54
    - § Both the Almond Grove Reserve and the CalPERS Reserve were established by TC resolutions, yet the former is reported as Committed and the latter is presented as Assigned. Why are they reported differently?
  
    - § Where is the reserve for Compensated Absences (\$1,692K after being reduced by \$589K to fund Almond Grove) and Vasona Land Sale (\$411K) per the Oct 28, 2015 Council Resolution?
  
    - § Why is there not a reserve for post-retirement medical when this was recorded \$400,000 as an assigned general fund reserve as of June 30, 2015. Has there been a change in spending intent?
  
  - o How do the reported Q1 '16/'17 amounts reflect the unresolved employee wage negotiations? If an estimate is not provided, will the numbers be restated at a later date?

- Page 3 of the Executive Summary, next to last paragraph before the US Economic Outlook indicates that \$1.4 of the \$3.7M Capital Improvement reserve is already committed for capital projects. What are the capital projects?

**The Full List (if there is time – the abbreviated list is included with the longer list that follows):**

**Agenda Item 2: First Quarter Investment Report AND Restated Demand Account Balances** (February through June 2016)

- There's one issue that over shadows all others. The narrative "Corrected Demand Account Balances" attempts to explain it. I will leave it up to each TC member if they think the explanation is sufficient once they understand what happened. The error is reflected in multiple places in the report when compared to the prior period reports.
  - On page 1, the July 31, 2016 Summary of Investment Information shows a "Last Month" balance (i.e. as of June 30, 2016) of \$74,913,946. The problem is that if you look at the July 15, 2016 Fourth Quarter Investment Report that the Council approval, the June 30, 2016 balance is \$62,500,546. In summary, the TC accepted a report that had bad numbers. You will see the month by month effect for the 5 months on the last 5 pages of the November 17, 2016 investment report. The collective error at June 30, 2016 was \$12,413,400.
  - This raises the question of what happened?
    - It appears that the staff was not reconciling the bank accounts on a regular basis. This is the most basic requirement to insure good internal accounting controls. If accounts are reconciled monthly, it should have been identified as part of the monthly closing processing. In this case, it took the Town at least 6 months to identify the problem.
  - It appears significant money was sitting in a "demand deposit" account, earning no interest.
  - Even if the Town missed it, why didn't the financial institution or more importantly, the investment manager catch the error—there was an extra \$12M sitting in a demand account at 6/30/16 and no one identified it or at least called it to the Town's attention?
  - Fortunately, no one took advantage of the situation so no money was lost other than the opportunity loss of the interest sitting in a demand account

- **Item 2 of the Agenda** asks the Finance Committee to “receive” the fiscal Q1 16/17 report and the 5 months of Reconciled Demand Account Balances. Their appears to be a significant inadequacy of internal controls. At a minimum I would expect the Finance Committee would want to report this to the TC. I would expect the Finance Committee would want to get greater assurance that the restated numbers are now accurate.
  - I could imagine the Finance Committee would want to talk with the Town’s independent auditors to get their take on how this happened.
  - If this is a material inadequacy in internal control, I believe the independent account needs to report it as such. The Finance Committee would want to know if this was going to happen
  - I would expect the Finance Committee to issue a written or oral report to the TC explaining the restatements for 5 months.
  - It would be hard to accept the report without getting comfortable in some way that the restated numbers are accurate and that new procedures are in place to ensure this does not happen again

### **Agenda Item 3: Quarterly Budget Performance & Operating Report**

- On a positive note--the unaudited fiscal 15/16 showed an operating surplus of \$2.66M after setting aside \$2.88M of other uses (which included \$2.52M to the “Almond Grove Reserve”
  - But a question: Where is the additional \$300K to be set aside in the “CalPERS Reserve” per TC authorization?
  - Why is there not a reserve for post-retirement medical when this was recorded \$400,000 as an assigned general fund reserve as of June 30, 2015. Has there been a change in spending intent?
  
- **On a positive note**—the Town is reporting the components of the General Fund Reserve in accordance with GASB #54, separately identifying Committed and Assigned Reserves and the remaining Unassigned Reserve (See “Box”)
  - But a question—Why is the Almond Grove Reserve so much less that the \$12.2M adopted at the October 28, 2015 Council Meeting? Has the Town already spent \$3.7M?
  - Another question—Both the Almond Grove Reserve and the CalPERS Reserve were established by TC resolutions, yet the former is reported as Committed and the latter is presented as Assigned. Why are they reported differently and how can we establish consistency?
  - In the 6/30/16 General Fund balance , where is the reserve for Compensated Absences (\$1,692K after being reduced by \$589K to fund

Almond Grove) and Vasona Land Sale (\$411K) per the Oct 28, 2015 Council Resolution?

- Do we therefore need to make up that difference, and if so, how and when will that happen?
- The June 2016 General Fund Reserve Report reflects the components in accordance with GASB #54 while the 2015 report reflects the components using a former standard—Could we please receive a reconciliation from the 2015 reserve presentation/classification to the 2016 reserve presentation/classification?
- How do the reported Q1 '16/'17 amounts reflect the unresolved employee wage negotiations? If an estimate is not provided, will the numbers be restated at a later date?
- Since the fiscal 15/16 audit has not been complete the reported numbers are unaudited, are there any remaining open audit issues at this point and if so, what are they? When do you expect the 2015/16 numbers to be finalized?
- What do you see as the area of greatest financial risks for the remainder of fiscal 16/17? General[Possible answers could be i) continuing decline in sales tax, ii) legal fees on North 40, iii) increased expense related to employee post-retirement benefits (pensions & OPEB), iv)...
- Just to note:
  - Per page 6, the Q1 16/17 sales tax income of \$2,081K includes a one-time "triple flip" true up" payment of \$900K. If this is netted out, the apples to apples Q1 numbers for 2015 and 2016 are \$871K for fiscal 2015 and 1,182K for 2016
  - Per page 14, the left most column reflects the unaudited fiscal 2015/16 excess of revenues over expenses of \$2.666M
  - Per page 14, the 3<sup>rd</sup> column from left and 6<sup>th</sup> column from left compare Q1 fiscal 2016 to Q1 fiscal 2017. 2016 had a deficit of \$1,406K and 2017 had a deficit of \$1,185K. The Q1 2016 deficit would have been \$2,085K if it weren't for the one-time \$900K triple flip payment explained on page 6. I don't know if Q1 2016 had any unusual items or the year to year increase in Q1 deficit of \$679K is significant or if it's even an apples to apples comparison.
  - Per page 14, the 16/17 annual budget includes a revenue source of \$8,459K for Almond Grove Project and \$1.4M for Capital Projects
  -
- If the answers to the questions make sense, I see no reason why the Finance Committee should not "receive" the fiscal Q1 16/17. But then I'm not sure what "receive" means. I would expect the Finance Committee to issue a written or oral report to the TC to explain the major changes in Q1 2016/17 which would include:
  - Unaudited 2015/16 results show an excess of revenue over expenditures of \$2.666M

- Adoption of GASB 54 for General Fund reserve reporting to Town Council to be consistent with audited CAFR reporting which adopted GASB 54 in the 2012 CAFR One time \$900K triple flip sale tax revenue
- An apples to apples year over year Q1 comparison showing a \$679K greater Q1 deficit
- Anticipated employee costs do (do not) reflect the expected outcome of union negotiations.
- Report that the audit is not completed and that it is expected that it would be completed approximately XXXX
- On page 16 of the budget performance report, the GFAR Fund beginning balance is \$14.7m. If you add the budgeted revenues of \$11.3m and deduct the budgeted expenditures of \$25.3m from the beginning balance, this suggests the ending balance will be \$807k. Does the Town think that this is sufficient fund level to fund the future capital requirements for the Town? What should a "normal" level be for the GFAR balance be as we exit FY 2016?
- Why we would focus on this is that the Town has already disclosed in the 2016 Capital Plan that there is over \$10m in unfunded street maintenance projects. It is hard for us to believe that drawing the GRAR down to \$807,880 is prudent management. We are assuming that the entire budgeted expenditures actually get spent this year.

Terry Duryea, Jak VanNada, Peter Hertan, Lee Fagot