



TOWN OF LOS GATOS

CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cover Photos: Sophia Constantine and Liv Ames

**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

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

TOWN HISTORY

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

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

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

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well balanced community has been and remains a prominent goal of the community. From the first 100-acre town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 31,314. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

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

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

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

INTRODUCTORY SECTION:

Letter of Transmittal.....	1
Organizational Chart.....	7
Principal Officers.....	8
GFOA Award	9

FINANCIAL SECTION:

<i>Independent Auditor's Report</i>	11
---	----

<i>Management's Discussion and Analysis</i>	15
---	----

Basic Financial Statements:

Government-Wide Financial Statements:	29
Statement of Net Position.....	30
Statement of Activities	31

Fund Financial Statements:

Governmental Funds:.....	33
Balance Sheet	34
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	35
Statement of Revenues, Expenditures and Changes in Fund Balances	36
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	37
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) General Fund	38
Proprietary Funds – Internal Service Funds:	39
Statement of Net Position	40
Statement of Revenue, Expenses and Changes in Net Position	41
Statement of Cash Flows	42
Fiduciary Funds:	43
Statement of Fiduciary Net Position.....	44
Statement of Changes in Fiduciary Net Position	45
Notes to the Basic Financial Statements	47

REQUIRED SUPPLEMENTARY INFORMATION:

<i>Schedule of Changes in the Net Pension Liability and Related Ratios – CalPERS Miscellaneous Agent Multiple Employer Plan</i>	88
<i>Schedule of Proportionate Share of Net Pension Liability – CalPERS Safety Cost Sharing Plan</i>	89
<i>Schedule of Pension Plans Contributions – Miscellaneous Agent-Multiple Employer Plan</i>	90
<i>Schedule of Pension Plans Contributions – Safety Cost Sharing Plan</i>	91
<i>Funded Status of Other Post-Employment Benefits (OPEB) Plan</i>	92

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

SUPPLEMENTARY INFORMATION:

Major Governmental Fund Schedules (other than the General Fund):

Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP) Appropriated Reserves Fund	95
--	----

Nonmajor Governmental Funds:

Combining Balance Sheets	96
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	98
Budgeted Nonmajor Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP)	100

Internal Service Funds:

Combining Statement of Net Position	104
Combining Statement of Revenue, Expenses and Changes in Net Position	105
Combining Statement of Cash Flows.....	106

Private Purpose Trust Funds:

Combining Statement of Fiduciary Net Position	108
Combining Statement of Changes in Fiduciary Net Position	109

STATISTICAL SECTION	111
Net Position by Component	112
Changes in Net Position.....	113
Fund Balances, Governmental Funds	114
Changes in Fund Balances, Governmental Funds.....	115
Assessed Value and Estimated Actual Value of Taxable Property.....	116
Direct and Overlapping Property Tax Rates	117
Principal Property Tax Payers	118
Property Tax Levies and Collections	119
Ratios of Outstanding Debt by Type.....	120
Direct and Overlapping Governmental Activities Debt	121
Legal Debt Margin	122
Demographic and Economic Statistics.....	123
Principal Employers	124
Full-time Equivalent Town Government Employees by Function/Program	125
Operating Indicators by Function/Program.....	126
Capital Assets Statistics by Function/Program	127

OTHER INDEPENDENT AUDITOR'S REPORTS:

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	131
---	-----

Introductory Section



TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December 13, 2017

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2017. This report was prepared by the Finance Department in conjunction with the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2017, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

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

This Comprehensive Annual Financial Report is organized into three sections:

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

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting

Standards Board (GASB) and includes the report of Badawi & Associates, the Town's independent certified public accountants.

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

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as "Silicon Valley." From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 31,314. This relatively slow growth over the last 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been, and remains a prominent goal for the community.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the economy continues to improve and economically sensitive revenues, such as Property Tax, Transient Occupancy Tax, Business License Tax and License and Permit revenues increased.

In past years, the Town has implemented a number of strategies to keep operating revenues in balance with ongoing operating expenditures. These steps included organizational realignments, job sharing, and departmental cost saving efficiencies, among other strategies, that allowed the Town to remain fiscally balanced during challenging economic times. Despite the ongoing strategic reductions made in staffing and operating expenditures salary and benefits was the Town's largest expenditure, reflecting the personal touch required to deliver high quality services such as public safety, community development, and parks and public works.

General Fund revenues (including transfer-ins) increased 7.7% from the prior year. Property tax revenues are a significant source of support for General Fund operations, comprising approximately 34% of General Fund revenues in FY 2016/17. The FY 2016/17 \$14.8 million property tax receipts were \$1.0 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture and educational opportunities. Based on valuation projected by Santa Clara County Assessor's Office, Los Gatos property values are anticipated to continue with moderate growth rates for the near term. Property taxes also increased moderately due to a change in property tax distribution due to the dissolution of the California redevelopment agencies, though this increase was a small portion of the loss of redevelopment tax increment previously collected prior to the redevelopment dissolution which occurred in February 2012.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 20.5% of General Fund revenues in FY 2016/17. The FY 2016/17 \$8.9 million sales tax receipts were \$1.4 million higher than the prior year's collection. The FY 2016/17 proceeds include a one-time "triple flip" final payment and other sales tax revenue reclassified to this period. Notwithstanding the increase mentioned above, the general sales tax revenues are trending lower due to the negative impact associated with increased online versus brick and mortar shopping, decreased gasoline prices and the continued impact of the 2011 business model change in Netflix.

In prior years the Town Council appropriated funds in a deferred revenue deposit account to be used as a funding source for future CalPERS required employer contributions. Due to robust investment earnings during the "dot com" years preceding 2001, the Town's pension trust was determined by CalPERS to be "superfunded." As such, the Town was not required in those years to make pension contributions to the CalPERS pension trust. The Town conservatively elected to charge itself its required contributions and placed them into a General Fund deposit account dedicated for future CalPERS employer pension costs. The total remaining amount as of July 1, 2016 not used by the Town for employer contributions to CalPERS was \$1.8 million. Upon review of its prior accounting for the amounts as deferred revenue, the Town reclassified the \$1.8 million deposit account as a prior period adjustment, increasing the General Fund Reserve for CalPERS/OPEB and decreasing the same amount from the deferred revenue CalPERS deposit liability account.

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

The Town is also preparing for an increase in pension employer rates due to changes to economic and demographic actuarial assumptions adopted by CalPERS. Town Council and staff are considering future opportunities to pro-actively manage and control cost escalation in its pension and other post employment benefits.

Despite the reductions to various sources of local government revenue and increasing costs due to unfunded federal and state mandates, the Town has maintained high service levels due to the General Fund's strong fiscal health through FY 2016/17. Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR INITIATIVES

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$7.6 million in Town infrastructure and other capital asset improvements were made in FY 2016/17, including \$1.2 million in building repairs and improvements, \$0.6 million in vehicle and equipment, \$0.3 million in annual curb, gutter, sidewalk and retaining walls and parking lot improvements, and \$1.9 million for street improvement projects including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety Town-wide. In addition, the Town invested \$3.6 million in construction in progress in various streets, building improvements and park projects.

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

- 1) safeguarding of assets against loss from unauthorized loss or disposition,

- 2) accuracy and reliability of accounting data, and
- 3) adherence to managerial policy.

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

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

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

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

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

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

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance

organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,



Laurel Prevetti
Town Manager

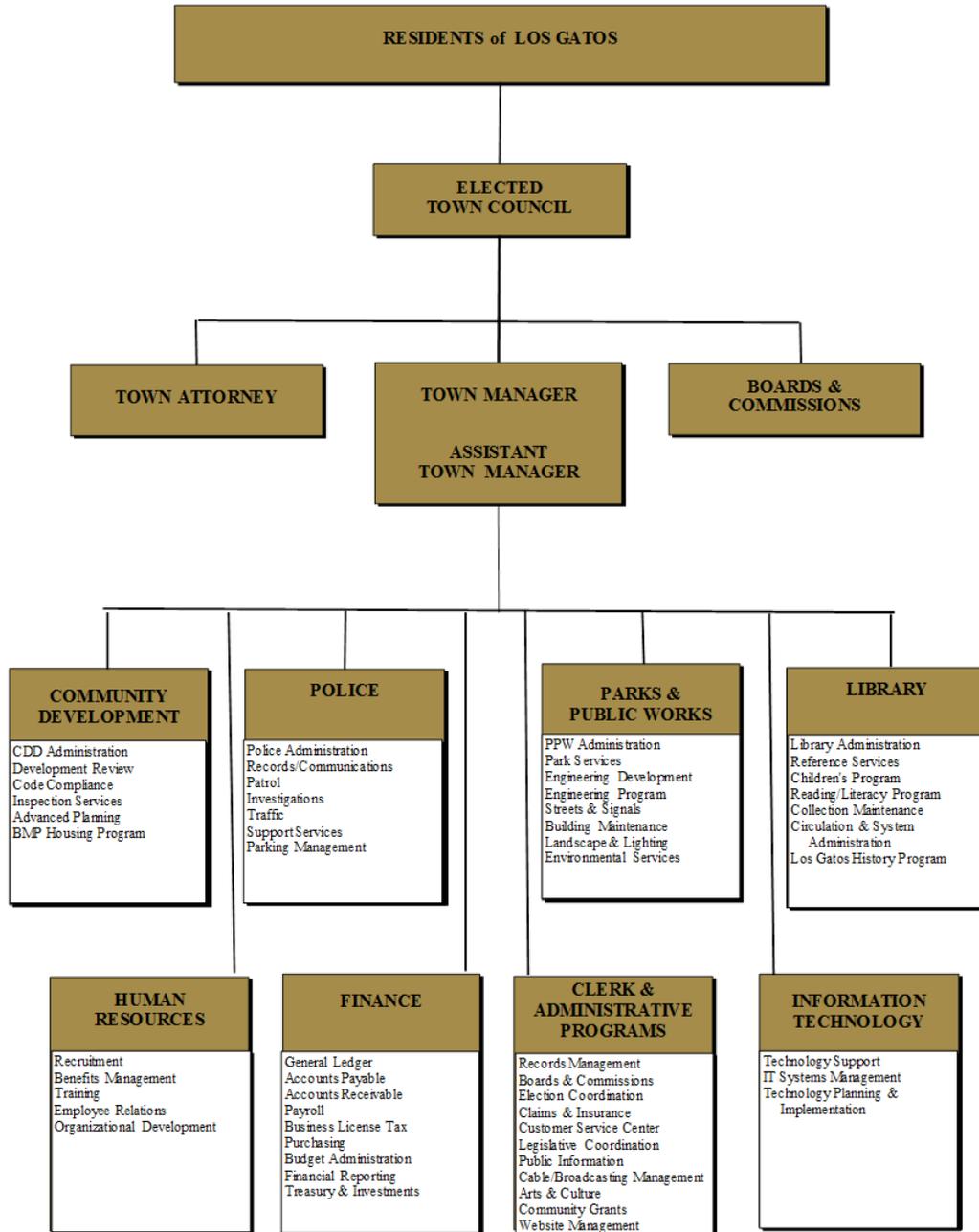


Stephen D. Conway
Director of Finance



Town of Los Gatos

Organizational Structure



**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2017**

TOWN COUNCIL

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

COUNCIL APPOINTEES

Town Manager	Laurel Prevetti
Town Attorney	Robert Schultz

APPOINTED OFFICIALS

Assistant Town Manager	Arn Andrews
Interim Chief of Police	Michael D'Antonio
Community Development Director	Joel Paulson
Parks and Public Works Director	Matt Morley
Interim Library Director	Jane Light
Finance Director	Stephen Conway
Human Resources Director	Lisa Velasco



Government Finance Officers Association

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

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill

Executive Director/CEO

This page intentionally left blank

Financial Section



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension related schedules and OPEB funded status information on pages 15-26 and 87-92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Los Gatos, California's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, the budgetary comparison schedule on page 95, 100 – 102, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

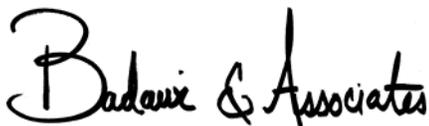
To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
Page 3

The combining and individual nonmajor fund financial statements and budgetary comparison schedule on page 95, 100 - 102 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Badawi and Associates Certified
Public Accountants Oakland,
California
December 13, 2017

This page intentionally left blank

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for fiscal year ending June 30, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Town assets exceeded its liabilities at the close of FY 2016/17 by \$117,027,779 (net position). Of this amount, \$15,134,420 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's Net position increased by \$4,513,273 due primarily to General Fund revenues above expenditures and a \$2.2 million increases from prior year adjustments.
- Total fund balances for governmental funds at year end were \$53,091,909, an increase of \$2,517,637 (5%) from the prior year. Fund balances increased primarily due to higher than expected property tax, transient occupancy tax, and license and permits revenues, operational salary savings due to staff vacancies, and prior year adjustments.
- At the end of FY 2016/17, fund balance for the General Fund was \$29,180,624, approximately 74% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets increased by \$2,881,797 to \$96,265,562 net of depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Fund Financial Statements

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

Governmental funds – The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and

MANAGEMENT'S DISCUSSION AND ANALYSIS

the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

Notes to basic financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 47-85 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$117 million at the end of the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Town of Los Gatos
Net Position
Governmental Activities
For the Year Ended June 30, 2017**

	2017	2016
Current and other Assets	\$ 76,851,804	\$ 76,803,285
Capital Assets	96,265,652	93,383,855
Total Assets	173,117,456	170,187,140
Deferred Outflows of Resources	15,666,410	6,648,152
Current Liabilities	15,368,467	15,658,568
Long-Term Liabilities Outstanding	50,630,426	38,417,287
Total Liabilities	65,998,893	54,075,855
Deferred Inflows of Resources	5,778,114	10,244,931
Net Position		
Net Investment in Capital Assets	96,265,652	93,383,855
Restricted	5,627,707	6,386,014
Unrestricted	15,134,420	12,744,637
Total Net Position	\$ 117,027,779	\$ 112,514,506

Capital assets represent approximately 51% of the Town's total assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, *Net Investment in Capital Assets* increased by \$2,881,797 as a result of approximately \$5.7 million, net of construction in progress, in capital improvements made during the fiscal year, offset by \$2.8 million in capital assets depreciation and retirements.

An additional portion of the Town's net position (4.8%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *unrestricted net position* represents approximately 12.9% of the Town's net position at year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities:

**Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2017**

	2017	2016
Revenues:		
Program revenues:		
Charges for Services	\$ 10,162,547	\$ 11,085,856
Operating Grants and Contributions	1,503,108	874,957
Capital Grants and Contributions	779,880	1,610,657
General Revenues:		
Property Taxes	14,756,214	13,763,458
Sales Taxes	8,925,276	7,501,175
Franchise Taxes	2,366,908	2,258,892
Other Taxes	2,351,223	1,997,497
Motor Vehicle in Lieu	14,056	12,308
Investment Earnings	192,260	698,324
Miscellaneous	528,946	598,170
Total Revenues	41,580,418	40,401,294
Expenses:		
Police Department	14,587,597	12,825,688
Parks and Public Works	9,502,707	8,320,623
General Government	6,771,628	6,993,661
Community Development	5,093,459	3,227,224
Library Services	2,868,748	2,522,142
Redevelopment (Pmts to SA)		
Interest and Fees		
Sanitation	466,762	528,580
Total Expenses	39,290,901	34,417,918
Change in Net Position	2,289,517	5,983,376
Net Position, beginning	112,514,506	106,531,130
Prior Period Adjustments	2,223,756	
Net Position, Beginning Adjusted	114,738,262	
Net Position, Ending	\$ 117,027,779	\$ 112,514,506

MANAGEMENT'S DISCUSSION AND ANALYSIS

As shown in the schedule above, the Town's net position increased by \$4,513,273. Key elements of the increase in net position are as follows:

- Property tax revenues collected for the Town accounted for 35.5% of total Town revenues. Property tax revenues for Town activities increased by \$0.9 million or 7.2%, from FY 2015/16 due primarily to the continued strong economy and the continued strong demand for housing in Los Gatos coupled with the impacts of several new developments being added to the tax roll.
- Sales tax revenue of \$8.9 million accounted for approximately 21.5% of Town total revenues for the year. The 19% increase of approximately \$1.4 million from the prior year collections is largely due to the timing of the final "triple flip" payment and other sales tax revenue reclassified to this period.
- Other taxes revenue of \$2.4 million accounted for 5.7% of total revenues, increasing by 17.7% from the prior year. This increase was primarily the result of the higher amount of Transient Occupancy Tax collected in FY 2016/17 as compared to the prior year.
- Total expenditures increased by approximately \$4.9 million from the prior year. This increase was primarily due to increased pension expense, capital project expenditures not capitalized, and additional \$1.0 million OPEB contribution.
- Prior period adjustments of \$2.2 million were made reflecting the Town's reclassification of approximately \$1.8 million of amounts recorded in prior years as a deposit/deferred revenue and a \$0.4 million change in the recognition of the sales tax revenue period received subsequent to fiscal year end. In prior years the Town Council appropriated funds in a deferred revenue deposit account to be used as a funding source for future CalPERS required employer contributions. Due to robust investment earnings during the "dot com" years preceding 2001, the Town's pension trust was determined by CalPERS to be "superfunded". As such, the Town was not required in those years to make pension contributions to the CalPERS pension trust. The Town conservatively elected to charge itself its required contributions and placed them into a General Fund deposit account dedicated for future CalPERS employer pension costs. The total remaining amount as of July 1, 2016 not used by the Town for employer contributions to CalPERS was \$1.8 million. Upon review of its prior accounting for the amounts as deferred revenue, the Town reclassified the \$1.8 million deposit account as a prior period adjustment, increasing the General Fund Reserve for CalPERS/OPEB and decreasing the same amount from the deferred revenue CalPERS deposit liability account.
- Unrestricted fund balance of \$15.1 million as of June 30, 2017 reflecting a \$2.4 million increase from the prior year. Staff anticipates this balance to be impacted by the implementation of GASB 75 in the next fiscal year. For additional information, please refer to Note 1.H and Note 10.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental funds

MANAGEMENT'S DISCUSSION AND ANALYSIS

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of FY 2016/17, the Town's governmental funds reported combined ending fund balances of \$53,091,909 an increase of \$2,336,547 in comparison with the prior year. Fund balances increased primarily due to higher than expected property tax, transient occupancy tax, license and permits revenues combined with operational salary savings due to staff vacancies.

Approximately 89% or \$47 million of the total amount of governmental fund balances of \$53,091,909 is committed, assigned or unassigned fund balance, which is available for spending subject to Town direction and approval. The remainder of fund balance is restricted therefore not available for new spending but limited as to use for (1) providing for appropriated capital projects (\$5,428,064); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$199,643).

General Fund - The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the General Fund net fund balance decreased by approximately 1.3% from prior year balances to \$29,180,624. This decrease reflects the combined effect of capital transfer to the Almond Grove Street Rehabilitation project and higher than expected receipt of economically sensitive revenues, combined with operational expenditure savings experienced during the year.

Other Major Funds

General Fund Appropriated Reserve (GFAR) Capital Projects Fund. The GFAR fund is used as the primary capital projects fund for the Town and is used for the acquisition and construction of major capital projects in the Town. Fund balance increased by \$3,485,982 to \$18,102,031. The increase is primarily due to capital transfer from General Fund and was not expended in the current year.

Other Non-Major Other Governmental Funds. These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds increased by \$755,787 to \$5,809,254.

Proprietary funds

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

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

The Equipment Replacement Fund charges replacement costs while the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year end for both funds was \$41,729 and \$101,507 respectively versus \$492,162 and \$107,692 in the prior year. The decrease in operating income in the Vehicle Maintenance Fund from the prior year is attributable to increased operating

MANAGEMENT'S DISCUSSION AND ANALYSIS

expenses incurred during the fiscal year. The small decrease in the Equipment Replacement Fund is attributable to the cyclical nature of fleet purchases in accordance with the Town's fleet replacement schedule.

The Facilities Maintenance, Stores, and Information Technology funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail and office inventory and duplication charges, and management information services. Net operating income (loss) before transfers at year end was \$66,390, \$17,309, and \$84,540 respectively. Expenditures exceeded revenues in the Building Maintenance Fund due to increased heating, ventilation and air conditioning maintenance and unscheduled repair costs experienced during the year. All three funds experienced savings on anticipated maintenance, repairs and replacements.

The Workers' Compensation and Self-Insurance Funds charge premiums based on exposure levels by department for liability, property, workers' compensation and self-insurance costs. Net operating income before transfers at year end was (\$123,074) (\$250,079) respectively, versus (\$289,718) and (\$146,868) in the prior year. The decrease in net position for the year for these funds reflects the adverse experience of loss claims in the fiscal year as compared to the prior year, in both the Workers' Compensation and general liability claim payments and settlements.

GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:

Budget Adjustments

Comparing the FY 2016/17 original budget (or adopted) General Fund Expenditures of \$34,931,270 (excluding budgeted transfers-out) the final budget amount of \$36,587,211 shows a net increase of \$1,655,950. Additions to the original budget included approved encumbrance carry-forwards of \$54,939, and additions of \$1,601,011 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	Approved Carry- forwards	Prior Year Encumbrances	Mis. Adjustments & Mid-Year Adjustments	Final Budget
\$ 34,931,270	\$ 54,939		\$ 1,601,002	\$ 36,587,211

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

- \$1,000,000 increase to provide funding for additional Other Post-Employment Benefits payment.
- \$300,000 transfer from the General fund to provide funding support for cut through management.
- \$130,000 transfer from the General fund to provide funding support for the Stonybrook/Kennedy Sidewalk Improvements capital project.
- \$114,419 transfer from the General fund to provide funding support for the Curb/Gutter/Sidewalk Maintenance capital project.
- \$100,000 related to the North 40 litigation legal costs.
- \$75,000 increase due to increased water utility cost for parks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- \$75,000 increase to supplement the annual funding of \$100,000 for tree maintenance and emergency removals due to recent storm activity.
- \$47,000 budget adjustment for additional legal and negotiation services.
- \$54,939 increase due to approved encumbrance carry-forwards.
- \$35,000 increase to budget to accept a Partnership to Improve Community Health (PICH) grant from Santa Clara County for smoking prevention and safe routes to school programs.
- \$34,414 transfer from the General fund to provide funding support for the Pageant Way Parking Lot Reconstruction capital project.
- \$28,000 budget adjustment for the larger than usual expense associated with the Sales Tax recovering activities.
- \$24,000 increase for additional recruitment services for the Assistant Town Manager position.
- \$20,946 increase to meet the rising cost of crossing guard services.
- \$17,628 increase for well testing and monitoring required by the County of Santa Clara. Before 1990, an underground oil tank leaked into the surrounding soil.
- \$17,112 increase to fund the Outside the Box Phase 2 program.
- \$11,000 in grant dollars to purchase new laptops for the Emergency Operation Center.

Comparing the FY 2016/17 final amended budget to the actual result shows \$2 million in savings due to operational cost savings primarily from savings related to staff vacancies.

Capital Assets

As of June 30, 2017, the Town's investment in capital assets for its governmental activity is recorded at \$96,265,652 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2016/17 the Town's \$7.5 million investment in capital assets for the current year represented approximately 8% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$3.6 million added to Construction in Progress for streets, building improvements and park projects;
- \$1.9 million for street improvements;
- \$1.2 million for facilities improvements;
- \$0.6 million in equipment purchases including \$0.4 million in fleet replacements, \$42,000 in computer-aided dispatch and automated records management system upgrades, and \$138,000 in Silicon Valley Regional Interoperability Infrastructure improvements.
- \$0.3 million for retaining walls and parking lot improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Town of Los Gatos Net Investment in Capital Assets June 30, 2017

	Governmental Activities
Infrastructure	\$ 44,101,321
Buildings	23,260,209
Land	20,333,684
Equipment	2,941,421
Construction in Progress	5,629,017
	<u>\$ 96,265,652</u>

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

Economic Factors and Next Year's Budgets and Rates

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

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

- As a result of factors including collectively bargained increases to pension benefits during the early 2000's when the economy was booming; the losses sustained in the California Public Employees Retirement System (CalPERS) pension plan's investment portfolio in the great recession coupled with ongoing changes in assumptions made by CalPERS actuaries about expected earnings in the fund (i.e. "discount rate") and life expectancies of its annuitant, the Town's pension plan funding levels went from surplus to unfunded. To address this unfunded status the Town took proactive steps including the payoff of the Town's pension plan "side fund" and the creation of two new pension tiers with associated lower costs of employer pension benefits for both public safety and miscellaneous employees. However, the Town continues to be impacted by the continuing rising cost of pension related benefits. Over the next five fiscal years, the Town's five year plan includes increasing costs in this expense and further changes in actuarial assumptions or lowering the discount rate (this change was approved by the CalPERS board in December 2016) are likely to increase this cost beyond current estimates. The Town's pension plan with CalPERS is currently funded at 72.8% for safety group and 68.2% for miscellaneous group based upon the June 30, 2016 Actuarial Valuation.
- General property tax collections represent approximately 28.9% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections were expected to increase 4% from the prior year's tax collections. This forecast is based on data from the Santa Clara County Tax Assessor's Office. Los Gatos is one of the few cities in Santa Clara County that did not encounter significant loss of assessed valuation during the recent recession and expects positive growth for FY 2017/18.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The Town anticipates a decrease in general sales tax for FY 2017/18. Sales tax estimates of \$8.0 million for FY 2017/18 were budgeted reflecting a 2.4% decrease from the prior year's adopted sales tax budget. FY 2016/17 sales tax proceeds include the final one-time triple flip true up proceeds. The negative impact is associated with increased online versus brick and mortar shopping, decreased gasoline prices, and by the continuing impact of the 2011 business model change in Netflix. Currently, Netflix represents approximately 16% of total sales taxes collected annually. With sales tax representing approximately 20.3% of the Town's General Fund revenues, any fluctuation in local sales tax collections will significantly impact the Town.
- The Town's investment portfolio experienced a slight increase in its overall weighted average annual yield, rising from 0.78% at June 30, 2016 to 1.25% at June 30, 2017. Anticipating continued low interest rates for FY 2017/18 coupled with reduced cash balances due to capital expenditures, investment earnings are expected to remain at the same level as the prior fiscal year.
- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2017/18 as personal and business related travel is expected to remain strong. In addition at the November 8, 2016 election the Town of Los Gatos residents approved a ballot measure increase to the TOT from 10% to 12%. Given the increase in travel activity, the FY 2016/17 TOT revenues were budgeted at \$2.1 million reflecting a 5% increase from the FY 2016/17 amended budget of \$2.0 million.

Requests for Information

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

Basic Financial Statements

This page intentionally left blank

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities
ASSETS	
Cash and investments	\$ 73,636,226
Restricted cash and investments	46,698
Receivables:	
Accounts	1,068,933
Interest	148,655
Intergovernmental	1,688,577
Materials, supplies and deposits	24,963
Long term notes receivables	237,752
Capital Assets:	
Nondepreciable	25,962,701
Depreciable, net of accumulated depreciation	70,302,951
Total Assets	173,117,456
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	4,145,646
Pension related amounts	11,520,764
Total Deferred Outflows of Resources	15,666,410
LIABILITIES	
Accounts payable	1,676,779
Accrued payroll and benefits	1,237,899
Due to other governments	17,240
Unearned Revenue	4,566,735
Deposits	6,441,664
Claims payable	1,348,391
Long-term liabilities:	
Due within one year:	
Compensated absences	79,759
Due in more than one year:	
Postemployment benefits	897,603
Net pension liabilities	47,271,733
Compensated absences	2,440,170
Total Liabilities	65,977,973
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	5,778,114
Total Deferred Inflows of Resources	5,778,114
NET POSITION	
Net investment in capital assets	96,265,652
Restricted for:	
Capital projects	5,428,064
Lighting and landscape repairs and maintenance	199,643
Total Restricted Net Position	5,627,707
Unrestricted	15,134,420
Total Net Position	\$ 117,027,779

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

**TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities:					
General government	\$ 6,771,628	\$ 1,669,020	\$ -	\$ -	\$ (5,102,608)
Public safety	14,587,597	2,076,688	837,329	-	(11,673,580)
Parks and public works	9,502,707	2,155,841	665,779	770,600	(5,910,487)
Community development	5,093,459	3,803,626	-	9,280	(1,280,553)
Library services	2,868,748	46,746	-	-	(2,822,002)
Sanitation	466,762	410,626	-	-	(56,136)
Total Governmental Activities	<u>\$ 39,290,901</u>	<u>\$ 10,162,547</u>	<u>\$ 1,503,108</u>	<u>\$ 779,880</u>	<u>\$ (26,845,366)</u>
General revenues:					
Taxes:					
Property taxes					14,756,214
Sales taxes					8,925,276
Franchise taxes					2,366,908
Other taxes					2,351,223
Motor vehicle in lieu					14,056
Investment earnings					192,260
Miscellaneous					528,946
Total general revenues					<u>29,134,883</u>
Change in Net Position					2,289,517
Net Position - Beginning, as restated					<u>114,738,262</u>
Net Position - Ending					<u>\$ 117,027,779</u>

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

This page intentionally left blank

TOWN OF LOS GATOS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR YEAR ENDED JUNE 30, 2017

FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements

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

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2017. Individual non-major funds can be found in the supplemental section.

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

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

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 36,038,845	\$ 22,235,821	\$ 5,599,227	\$ 63,873,893
Receivables:				
Accounts	848,096	29,036	146,181	1,023,313
Interest	148,655	-	-	148,655
Intergovernmental	1,626,100	-	62,477	1,688,577
Long term notes	159,000	-	78,752	237,752
Total Assets	\$ 38,820,696	\$ 22,264,857	\$ 5,886,637	\$ 66,972,190
LIABILITIES				
Accounts Payable	\$ 575,582	\$ 868,034	\$ 7,974	\$ 1,451,590
Accrued Payroll and Benefits	1,192,893	-	4,554	1,197,447
Due to other governments	17,073	-	-	17,073
Unearned revenue	1,207,148	3,294,792	64,855	4,566,795
Deposits	6,441,664	-	-	6,441,664
Compensated Absences	79,759	-	-	79,759
Total Liabilities	9,514,119	4,162,826	77,383	13,754,328
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	125,953	-	-	125,953
FUND BALANCE				
Restricted for:				
Capital Outlay	-	-	5,428,064	5,428,064
Repairs and Maintenance	-	-	199,643	199,643
Committed to:				
Budget Stabilization	4,969,847	-	-	4,969,847
Catastrophic	4,969,847	-	-	4,969,847
CalPERS/OPEB Reserve	3,388,913	-	-	3,388,913
Almond Grove Street Project	1,801,318	10,354,584	-	12,155,902
Assigned to:				
Open Space	562,000	-	-	562,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Strategic Planning	2,600,000	-	-	2,600,000
Capital Projects	8,273,124	6,237,237	-	14,510,361
Carryover Encumbrances	34,852	-	-	34,852
Comcast PEG	-	50,000	-	50,000
Compensated Absences	2,440,170	-	-	2,440,170
Special Revenue Funds	-	-	181,547	181,547
Total Fund Balances	29,180,624	18,102,031	5,809,254	53,091,909
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 38,820,696	\$ 22,264,857	\$ 5,886,637	\$ 66,972,190

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

TOWN OF LOS GATOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Fund Balance - Total Governmental Funds \$ 53,091,909

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

CAPITAL ASSETS

Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. 96,264,146

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. 6,278,071

DEFERED OUTFLOWS OF RESOURCES

Contributions and similar items will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources. 15,138,352

DEFERRED INFLOWS OF RESOURCES

The difference between projections and actual results in pension plans is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position. (5,751,601)

LONG-TERM LIABILITIES

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

Net Pension Liabilities	(44,781,278)	
Postemployment Benefits	(897,603)	
Compensated absences	(2,440,170)	
	(48,119,051)	(48,119,051)

LONG-TERM NOTES RECEIVABLES

In governmental funds, certain revenues are not available to pay for current period expenditures and, therefore, are offset by deferred inflow of resources. 125,953

Net Position - Governmental Activities \$ 117,027,779

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

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 14,756,214	\$ -	\$ 38,369	\$ 14,794,583
Sales Taxes	8,799,323	-	-	8,799,323
Other Taxes	2,328,058	-	23,165	2,351,223
Licenses & Permits	4,759,492	149,763	166,248	5,075,503
Intergovernmental	908,285	193,040	614,255	1,715,580
Charges for Services	3,269,714	598,614	341,846	4,210,174
Fines and Forfeitures	917,105	-	-	917,105
Franchise Fees	2,366,908	-	-	2,366,908
Interest	124,457	21,335	47,186	192,978
Use of Property	32,096	-	-	32,096
Other	484,471	523,474	3,994	1,011,939
Total Revenues	<u>38,746,123</u>	<u>1,486,226</u>	<u>1,235,063</u>	<u>41,467,412</u>
EXPENDITURES				
Current:				
General Government	8,390,959	-	-	8,390,959
Public Safety	13,251,288	-	-	13,251,288
Parks and Public Works	6,597,748	-	36,000	6,633,748
Community Development	3,793,930	-	-	3,793,930
Library Services	2,508,677	-	-	2,508,677
Sanitation and Other	-	-	466,762	466,762
Capital Outlay	-	5,391,206	1,475,828	6,867,034
Total Expenditures	<u>34,542,602</u>	<u>5,391,206</u>	<u>1,978,590</u>	<u>41,912,398</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,203,521</u>	<u>(3,904,980)</u>	<u>(743,527)</u>	<u>(444,986)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sales of assets	4,435	-	-	4,435
Transfers in	313,825	7,593,867	-	7,907,692
Transfers (out)	(7,298,187)	(202,905)	(110,920)	(7,612,012)
Total Other Financing Sources (Uses)	<u>(6,979,927)</u>	<u>7,390,962</u>	<u>(110,920)</u>	<u>300,115</u>
NET CHANGES IN FUND BALANCES	<u>(2,776,406)</u>	<u>3,485,982</u>	<u>(854,447)</u>	<u>(144,871)</u>
BEGINNING FUND BALANCES, AS RESTATED	<u>31,957,030</u>	<u>14,616,049</u>	<u>6,663,701</u>	<u>53,236,780</u>
ENDING FUND BALANCES	<u>\$ 29,180,624</u>	<u>\$ 18,102,031</u>	<u>\$ 5,809,254</u>	<u>\$ 53,091,909</u>

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

TOWN OF LOS GATOS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (144,871)

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

CAPITAL ASSET TRANSACTIONS

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

Expenditures for capital assets (additions)	6,432,214	
Proceeds from sale of assets	(4,435)	
Gain on sale of assets	2,344	
Current Year Depreciation	(3,547,369)	2,882,754

ACCRUAL OF NON-CURRENT ITEMS

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

Compensated absences	(350,329)
Postemployment benefits	1,796,973

PENSION PLAN CONTRIBUTIONS AND EXPENSE

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

(440,037)

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

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

(357,358)

LONG TERM NOTES RECEIVABLES AND ASSOCIATED DEFERRED REVENUE

Loans receivable written off were not recorded in governmental funds because they were not available to pay for current year expenditures and therefore were deferred

(1,223,568)

In governmental funds, certain revenues are not available to pay for current period expenditures and, therefore, are offset by deferred inflow of resources.

125,953

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 2,289,517

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

**TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 13,472,473	\$ 14,065,776	\$ 14,756,214	\$ 690,438
Sales Taxes	8,164,403	8,814,956	8,799,323	(15,633)
Other Taxes	1,907,000	2,007,000	2,328,058	321,058
Franchise Fees	2,191,120	2,221,120	2,366,908	145,788
Licenses & Permits	4,214,793	4,414,793	4,759,492	344,699
Intergovernmental	717,684	990,920	908,285	(82,635)
Charges for Services	3,050,910	3,179,461	3,269,714	90,253
Fines and Forfeitures	656,500	656,500	917,105	260,605
Interest	750,587	690,587	124,457	(566,130)
Use of Property	31,959	31,959	32,096	137
Other	809,267	544,947	484,471	(60,476)
Total Revenues	<u>35,966,696</u>	<u>37,618,019</u>	<u>38,746,123</u>	<u>1,128,104</u>
EXPENDITURES				
Current:				
General Government:				
Town Council	198,327	198,327	193,584	4,743
Town Attorney	347,008	468,647	426,550	42,097
Administrative Services	3,301,286	3,401,124	2,825,081	576,043
Non-Departmental	3,948,923	5,031,323	4,945,744	85,579
Total General Government	<u>7,795,544</u>	<u>9,099,421</u>	<u>8,390,959</u>	<u>708,462</u>
Public Safety	13,903,297	13,961,880	13,251,288	710,592
Community Development	4,109,302	4,132,694	3,793,930	338,764
Parks & Public Works	6,436,026	6,689,115	6,597,748	91,367
Library Services	2,687,101	2,704,101	2,508,677	195,424
Total Expenditures	<u>34,931,270</u>	<u>36,587,211</u>	<u>34,542,602</u>	<u>2,044,609</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>1,035,426</u>	<u>1,030,808</u>	<u>4,203,521</u>	<u>3,172,713</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,000	1,000	4,435	3,435
Transfers In	363,428	363,428	313,825	(49,603)
Transfers Out	(9,859,973)	(10,194,387)	(7,298,187)	2,896,200
Total Other Financing Sources (Uses)	<u>(9,496,545)</u>	<u>(9,830,959)</u>	<u>(6,979,927)</u>	<u>2,846,597</u>
NET CHANGES IN FUND BALANCES	<u>\$ (8,461,119)</u>	<u>\$ (8,800,151)</u>	<u>(2,776,406)</u>	<u>\$ 6,019,310</u>
BEGINNING FUND BALANCE, AS RESTATED			<u>31,957,030</u>	
ENDING FUND BALANCE			<u>\$ 29,180,624</u>	

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

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

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

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

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities Internal Service Funds
ASSETS	
Current Assets:	
Cash & investments	\$ 9,762,331
Restricted cash & investments	46,698
Accounts Receivable	45,680
Materials, supplies, and deposits	24,963
Total current assets	9,879,672
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	1,514
Total Assets	9,881,186
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	214,987
Pension related amounts	313,071
Pension contributions	528,058
LIABILITIES	
Current Liabilities:	
Accounts payable	225,195
Accrued payroll and benefits	40,452
Due to other governments	167
Total current liabilities	265,814
Noncurrent liabilities:	
Claims payable	1,348,391
Net pension liability	2,490,455
Total noncurrent liabilities	3,838,846
Total Liabilities	4,104,660
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	26,513
	26,513
NET POSITION	
Net Investment in capital assets	1,514
Unrestricted	6,276,557
Total Net Position	\$ 6,278,071

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

**TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 4,667,639
Interest	8
Use of money and property	215,093
Other local taxes	23,165
Other	318,661
	318,661
Total Operating Revenues	5,224,566
OPERATING EXPENSES	
Salaries and related expenses	1,318,991
Insurance expenses	722,341
Depreciation	957
Services and Supplies	3,243,955
	3,243,955
Total Operating Expenses	5,286,244
Operating Income	(61,678)
Transfers out (Note 4)	(295,680)
Net transfers	(295,680)
Change in Net Position	(357,358)
BEGINNING NET POSITION	6,635,429
ENDING NET POSITION	\$ 6,278,071

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

**TOWN OF LOS GATOS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Governmental Activities Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 5,205,539
Payments to suppliers	(3,261,668)
Payments to employees	(1,350,806)
Claims paid	(527,488)
	65,577
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers Out	(295,680)
	(295,680)
Net Increase(Decrease) in Cash and Investments	(230,103)
Cash and investments - beginning of year	10,039,132
Cash and investments - end of year	\$ 9,809,029
Financial Statement Presentation	
Cash and investment	\$ 9,762,331
Restricted and investment	46,698
Total	\$ 9,809,029
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ (61,678)
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	957
Change in assets and liabilities:	
Receivables, net	(19,027)
Material and supplies	(7,859)
Deferred outflows of resources	(326,050)
Net pension liabilities	420,609
Deferred inflows of resources	(130,821)
Accounts payable	(9,929)
Accrued payroll and benefits	4,447
Claims payable	194,853
Due to other government	75
Cash Flows From Operating Activities	\$ 65,577

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

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FIDUCIARY FUNDS

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

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

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

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Total Private Purpose Trust Funds
ASSETS	
Cash and investments (Note 2)	\$ 2,192,485
Restricted cash and investments (Note 2)	1,967,497
Loans receivable (Note 3)	563,761
Capital assets (Note 5):	
Nondepreciable	5,257,422
Depreciable, net of accumulated depreciation	1,728,777
Total Assets	11,709,942
LIABILITIES	
Accounts payable	5,244
Due to other governments (Note 13)	70
Interest payable	348,518
Long-term debt (Note 6):	
Due within one year	1,105,000
Due in more than one year	18,169,510
Total Liabilities	19,628,342
NET POSITION	
Held in trust	(7,918,400)
Total Net Position	\$ (7,918,400)

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

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Total
ADDITIONS	
Property taxes	\$ 1,964,636
Investment earnings	10,934
Gifts, bequests and endowments	79,760
Other	1,923,303
Total Additions	3,978,633
DEDUCTIONS	
Program expenses of former RDA	1,930,143
Interest and fiscal agency expenses of RDA	802,166
Library services	75,499
Depreciation expense	101,692
Total Deductions	2,909,500
CHANGE IN NET POSITION	1,069,133
NET POSITION - BEGINNING OF YEAR	(8,987,533)
NET POSITION - END OF YEAR	\$ (7,918,400)

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

This page intentionally left blank

Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

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

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town's population as of January 1, 2017 was 31,314.

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

B. Description of Blended Component Units

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

C. Description of Joint Ventures and Public Entity Risk Pool

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

D. Basis of Presentation

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. However, interfund services provided and used are not eliminated in the process of consolidation. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

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

E. Major Funds

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

The Town also reports the following fund types:

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

F. Basis of Accounting

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

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

For the purpose of the statement of cash flows, the Town considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the Town as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The Town also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

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

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

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

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

Beginning Balance	\$ 2,339,843
Addition	1,727,217
Payments	<u>(1,547,131)</u>
Ending Balance	<u>\$ 2,519,929</u>
Compensated Absences Current Portion	<u>\$ 79,759</u>

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

Subsequent Events - Management has considered subsequent events through December 13, 2017, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure other than described in Note 15.

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during for the year ended June 30, 2017.

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

G. Accounting and Reporting Changes

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*— The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement were not applicable to the Town.

GASB Statement No. 77, *Tax Abatement Disclosure*- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. There was no impact on net position as a result of implementation of this statement.

GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*— The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the Town.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this statement were not applicable to the Town.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73*. This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Town updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard.

H. Upcoming Accounting and Reporting Changes

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Issue date: 06/15. Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

Based on the information disclosed in note 10, the Town anticipates that a liability close to the unfunded actuarial liability of \$12.6 million, reported as of June 30, 2017, will have to be recorded in the June 30, 2018 government-wide financial statements. Assuming all factors included in the valuation were to remain the constant.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements. Issue date: 03/16. Effective date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The Town does not anticipate a material financial statement impact related to this statement.

GASB Statement No. 85 – Omnibus. Issued date: 03/17. Effective date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

The Town does not anticipate a material financial statement impact related to this statement.

GASB Statement No. 86 –*Certain Debt Extinguishment Issues*. Issued date: 05/17. Effective date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance.

The Town does not anticipate a material financial statement impact related to this statement.

NOTE 2 - CASH AND INVESTMENTS

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

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

The bank balance of the Town's cash deposits was \$18,949,250 and the book balance was \$18,955,224 as of June 30, 2017. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to \$250,000 for each bank. As of June 30, 2017, the Town's cash balances exceeded FDIC by \$18,709,424 but were collateralized as discussed above.

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

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

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

Local Agency Investment Fund (LAIF) - The Town invests in the California State Treasurer's Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2017, LAIF had approximately \$77 billion in investments. Of that amount, 97.11% is invested in non-derivative financial products and 2.89% in structured notes and asset-backed securities. These investments are described as follows:

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

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

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

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

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2017.

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

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Portfolio Percentage</u>	
US Treasury Obligations	5 years	None	
US Agency Obligations	5 years	None	
Bankers Acceptances	180 days	30%	
Commercial Paper	180 days	25%	
Medium Term Notes	3/5 years	30%	
Collateralized CD's	5 years	30%	
CA LAIF	NA	65 M	per State Law
Money Market Funds	NA	20%	

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2017:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Concentration of Credit Risk	Rating	Input level	Time to Mature (Years)	Weighted Average Maturity
US Treasury Securities	\$ 7,991,844	\$ -	\$ 7,991,844	14.05%	Aaa	1	1-3	1.31 years
US Instrumentality Security	29,183,872	-	29,183,872	51.32%	Aaa	2	1-3	1.07 years
Corporate Securities	13,320,532	-	13,320,532	23.42%	A1, A2, Aa1, Aa2, Aa3	2	1-3	1.4 years
Government Securities Money Market Mutual funds	159,162	-	159,162	0.28%	Not Rated	2	n/a	n/a
LAIF	6,213,877	-	6,213,877	10.93%	Not Rated	n/a	1	n/a
Total investments	56,869,287	-	56,869,287	100.00%				
Cash Deposit with Banks	18,955,224	46,698	19,001,922					
Money Market Accounts	-	1,967,497	1,967,497					
Cash on hand at Town	4,200	-	4,200					
Town Cash and Investments	\$ 75,828,711	\$ 2,014,195	\$ 77,842,906					

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

	Total Town	Fiduciary Funds	Total
Cash and Investments available for operations	\$ 73,636,226	\$ 2,192,485	\$ 75,828,711
Restricted cash and investments	46,698	1,967,497	2,014,195
Total cash and investments	\$ 73,682,924	\$ 4,159,982	\$ 77,842,906

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2017:

Description	Interest Rate	Maturity	Balance
General Fund:			
Rehab Loan to Charities	Various	Various	\$ 159,000
Total General Fund			159,000
Community Development Block Grant Fund (CDBG):			
Housing Conservation Loans	0-5%	Various	78,752
Total CDBG			78,752
Total Long Term Notes Receivable - Government-wide Statement of Net Position			237,752
Successor Agency Affordable Housing			
Project Match	Various	Various	563,761
Total Long Term Notes Receivable			\$ 801,513

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 - LONG-TERM NOTES RECEIVABLE, CONTINUED

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

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four or five bedroom single family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2017, no interest or principal payments have been made.

NOTE 4 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables - Amounts due to or due from other funds reflect interfund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 313,825	\$ 7,298,187
Appropriated Reserve Fund	7,593,867	202,905
Non-major Gov't Funds	-	110,920
Internal Service Funds	-	295,680
Total Transfers	<u>\$ 7,907,692</u>	<u>\$ 7,907,692</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

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

	Balance at <u>June 30, 2016</u>	Adjustments and Additions	Transfers and Retirements	Balance at <u>June 30, 2017</u>
Capital Assets not being Depreciated				
Land	\$ 20,333,684	\$ -	\$ -	\$ 20,333,684
Construction in Progress	<u>3,220,930</u>	<u>3,569,657</u>	<u>(1,161,570)</u>	<u>5,629,017</u>
Total Capital Assets not being Depreciated	<u>23,554,614</u>	<u>3,569,657</u>	<u>(1,161,570)</u>	<u>25,962,701</u>
Capital Assets being Depreciated				
Buildings and Improvements	28,818,259	1,221,348	-	30,039,607
Equipment & Vehicle	10,522,613	583,629	(217,069)	10,889,173
Infrastructure - All Other	22,138,795	298,178	36,111	22,473,084
Infrastructure - Streets	<u>54,871,196</u>	<u>1,884,861</u>	<u>-</u>	<u>56,756,057</u>
Total Capital Assets being Depreciated	<u>116,350,863</u>	<u>3,988,016</u>	<u>(180,958)</u>	<u>120,157,921</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,185,389	594,009	-	6,779,398
Equipment & Vehicle	7,586,270	576,460	(214,978)	7,947,752
Infrastructure - All Other	4,253,985	737,960	-	4,991,945
Infrastructure - Streets	<u>28,495,978</u>	<u>1,639,897</u>	<u>-</u>	<u>30,135,875</u>
Total accumulated depreciation	<u>46,521,622</u>	<u>3,548,326</u>	<u>(214,978)</u>	<u>49,854,970</u>
Net Capital Assets being Depreciated	<u>69,829,241</u>	<u>439,690</u>	<u>34,020</u>	<u>70,302,951</u>
Governmental Activity Capital Assets, Net	<u>\$ 93,383,855</u>	<u>\$ 4,009,347</u>	<u>\$ (1,127,550)</u>	<u>\$ 96,265,652</u>

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

<u>Governmental Activities</u>	<u>Depreciation Expense</u>
General Government	\$ 134,689
Public Safety	388,088
Parks & Public Works	2,499,755
Community Services	44,601
Library	391,339
Sanitation	<u>89,854</u>
Total Governmental Activities	<u>\$ 3,548,326</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS, CONTINUED

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

	Balance at June 30, 2016	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2017
Capital Assets not being Depreciated				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total Capital Assets not being Depreciated	5,257,422	-	-	5,257,422
Capital Assets being Depreciated				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total Capital Assets being Depreciated	4,067,708	-	-	4,067,708
Less Accumulated Depreciation for:				
Buildings and Improvements	2,237,239	101,692	-	2,338,931
Total accumulated depreciation	2,237,239	101,692	-	2,338,931
Net Capital Assets being Depreciated	1,830,469	(101,692)	-	1,728,777
Governmental Activity Capital Assets, Net	\$ 7,087,891	\$ (101,692)	\$ -	\$ 6,986,199

NOTE 6 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2017:

Long Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning			Due Within One		Due in More Than
				Balance	Deletion	Ending Balance	Year	One Year	
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 7,435,000	\$ 320,000	\$ 7,115,000	\$ 335,000	\$ 6,780,000	
2010 COP	2.5-4.25%	2028	15,675,000	12,415,000	745,000	11,670,000	770,000	10,900,000	
Subtotal COP			26,400,000	19,850,000	1,065,000	18,785,000	1,105,000	17,680,000	
Premiums			735,095	527,165	37,655	489,510		489,510	
Total Long-Term Debt			\$ 27,135,095	\$ 20,377,165	\$ 1,102,655	\$ 19,274,510	\$ 1,105,000	\$ 18,169,510	

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED

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

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

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

Future debt service requirements of the 2002, and 2010 Certificates of Participation (collectively the “COPs”) as of June 30, 2017, were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2018	\$ 1,105,000	\$ 809,739	\$ 1,914,739
2019	1,150,000	759,073	1,909,073
2020	1,195,000	710,024	1,905,024
2021	1,250,000	658,494	1,908,494
2022	1,300,000	599,850	1,899,850
2023-2027	7,430,000	2,070,788	9,500,788
2028-2032	5,355,000	486,475	5,841,475
Total COP Debt Service	<u>\$18,785,000</u>	<u>\$ 6,094,443</u>	<u>\$ 24,879,443</u>

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled \$1,967,497 as of June 30, 2017. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

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

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. There was no non-obligated debt outstanding as of June 30, 2017.

NOTE 8 - FUND BALANCES

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

As of June 30, 2017, fund balances were classified as follows:

	Beginning Balance	Reclassifications	Reclassified Beginning Balance	Additions	Deletions	Ending Balance
Restricted for						
Capital Outlay	\$ 6,200,681	\$ -	\$ 6,200,681	\$ -	\$ (772,617)	\$ 5,428,064
Repairs and Maintenance	185,333	-	185,333	14,310	-	199,643
Committed to:						
Budget Stabilization	6,621,808	(1,984,402)	4,637,406	332,441	-	4,969,847
Catastrophic	4,637,406	-	4,637,406	332,441	-	4,969,847
CalPERS/OPEB Reserve	300,000	3,788,913	4,088,913	300,000	(1,000,000)	3,388,913
Almond Grove Street Project	12,155,973	-	12,155,973	-	(71)	12,155,902
Assigned to:						
Open Space	562,000	-	562,000	-	-	562,000
Parking	1,460,210	-	1,460,210	-	-	1,460,210
Sustainability	140,553	-	140,553	-	-	140,553
Strategic Planning	2,600,000	-	2,600,000	-	-	2,600,000
Capital Projects	13,473,231	-	13,473,231	1,037,130	-	14,510,361
Carryover Encumbrances	99,284	-	99,284	-	(64,432)	34,852
Comcast PEG	50,000	-	50,000	-	-	50,000
Compensated Absences	2,089,843	-	2,089,843	350,327	-	2,440,170
Special Revenue Fund	179,040	-	179,040	2,507	-	181,547
Unassigned	-	-	-	-	-	-
Total Fund Balance - All Governmental Funds	<u>\$ 50,755,362</u>	<u>\$ 1,804,511</u>	<u>\$ 52,559,873</u>	<u>\$ 2,369,156</u>	<u>\$ (1,837,120)</u>	<u>\$ 53,091,909</u>

Restricted

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - FUND BALANCES, CONTINUED

Committed

Stabilization Arrangements

The Town Council has established by resolution the budget stabilization arrangement and the catastrophe arrangement. The total balances in these arrangements are to be maintained at 25% of annual General Fund ongoing, operating expenditures, excluding one-time expenditures divided equally between both arrangements. When either arrangement 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. The arrangements can be used when:

- Unforeseen emergencies, such as a disaster or catastrophic event occur
- 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
- One -time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Should any of the events listed above 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 or budget stabilization arrangement appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the event and authorizing the appropriation of reserve funds.

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

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

Assigned

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - FUND BALANCES, CONTINUED

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

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

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

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

Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2017 that were not an obligation of the General Fund because of their long-term nature.

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

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

(a) General Information about the Pension Plans

Plan Description - All qualified employees are eligible to participate in the Town's pooled Safety Plan, a cost-sharing multiple-employer defined benefit pension plan and the Town's Miscellaneous (all other) Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(a) General Information about the Pension Plan, Continued

Benefit, Lump Sum, or the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous			Safety	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
Hire Date	Prior to September 15, 2012	Prior to September 15, 2012 and before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013	Before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2% @ 60	2% @ 62	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years	5 years	5 years	5 years	5 years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62	62	62
Monthly benefits as a % of eligible compensation	2% to 2.5%	1% to 2.5%	1.5% to 2.5%	3%	2% to 2.7%
Required employee contribution rates	8.00%	7.00%	6.75%	9.00%	12.25%
Required employer contribution rates	26.956%	12.00%	12.00%	21.23%	12.821%
Required payment of unfunded liability	N/A			\$755,232	N/A

Employees Covered

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

	Miscellaneous	Safety
Active	112	39
Transferred	91	14
Separated	80	2
Retired	216	71
Total	499	126

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(a) General Information about the Pension Plan, Continued

(b) Net Pension Liability

The Town's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position.

For the Safety Plan, net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Town's proportion of the net pension liability (Safety Plan) was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of the measurement dates June 30, 2015 and June 30, 2016 were as follows:

	Proportionate Share of Net
Proportion - June 30, 2015	0.14860%
Proportion - June 30, 2016	0.22394%
Change - Increase (Decrease)	0.07534%

A summary of principal assumptions and methods used to determine the net pension liability is shown on the following page.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

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

	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	
Investment Rate of Return (1)	7.50%	7.50%
Mortality (2)	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	

(1) Depending on age, service, and type of employment

(2) Net of pension plan administrative expenses

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, Continued

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a buildingblock method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	5.60%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100%		

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(c) Changes in the Net Pension Liability

The change in the Net Pension Liability for the Miscellaneous Plan follows:

Miscellaneous Plan	Total Pension Liability	Fiduciary Net Pension	Net Pension Liability
	<u> </u>	<u> </u>	<u> </u>
Beginning Balance	\$ 89,600,121	\$ 66,390,878	\$ 23,209,243
Service Costs	1,560,679		1,560,679
Interest on Total Pension Liability	6,697,247		6,697,247
Changes of Assumptions	-		-
Difference Between Actual and Expected Experience	(357,870)		(357,870)
Net Plan to Plan Resource Movement		(28,866)	28,866
Employer Contributions		2,223,782	(2,223,782)
Employee Contributions		691,770	(691,770)
Net Investment Income		369,185	(369,185)
Employee Contribution Refunds and Benefit Payments	(4,953,756)	(4,953,756)	-
Administrative Expenses		(40,462)	40,462
Other Miscellaneous Income	<u>-</u>	<u>-</u>	<u>-</u>
Net Changes	<u>2,946,300</u>	<u>(1,738,347)</u>	<u>4,684,647</u>
Ending Balance	<u>\$ 92,546,421</u>	<u>\$ 64,652,531</u>	<u>\$ 27,893,890</u>

For the measurement period ended June 30, 2016, the Town contributed \$1,586,129 for the Safety Cost Sharing Plan.

As of June 30, 2017, the Town reported net pension liabilities for its proportionate share of the net pension liability of the Safety Cost Sharing Plan of \$19,377,843.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Town for each plan, calculated using the discount rate for the Plan, as well as what the Local Government's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(c) Changes in the Net Pension Liability, Continued

	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan	Total Plans
1% Decrease Net Pension Liability	\$ 39,567,384	\$ 29,851,702	69,419,086
Current Discount Rate Net Pension Liability	\$ 27,893,890	\$ 19,377,843	47,271,733
1% Increase Net Pension Liability	\$ 18,225,532	\$ 10,779,878	29,005,410

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued CalPERS financial report.

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Town recognized pension expense of \$1,982,015 for the Miscellaneous Agent Multiple Employer Plan and \$2,548,057 for the Safety Cost Sharing Plan.

At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the Miscellaneous Agent Multiple Employer Plan:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,407,496	
Changes in assumptions		72,054
Difference between expected and actual experiences		224,893
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		
Net differences between projected and actual earnings on plan investments	3,506,890	
Totals	\$ 5,914,386	\$ 296,947

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

\$2,407,496 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2017	\$ 207,641
2018	439,522
2019	1,638,399
2020	924,381
2021	-
Thereafter	-

At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Cost Sharing Plan:

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,738,150	
Changes in assumptions		545,070
Difference between expected and actual experiences		125,014
Changes in employer's proportion	3,536,301	4,511,616
Differences between the employer's contributions and the employer's proportionate share of contributions	1,799,668	299,466
Net differences between projected and actual earnings on plan investments	2,677,904	
Totals	\$ 9,752,024	\$ 5,481,167

\$1,738,150 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year end June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2018	\$ (305,659)
2019	79,097
2020	2,062,132
2021	697,137

(e) Payable to the Pension Plan

At June 30, 2017, the Town reported a payable of \$63,003 and \$55,421 for the outstanding amount of contributions to the Miscellaneous Agent Multiple Employer Plan and the Safety Cost Sharing Plan for the year ended June 30, 2017.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

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

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

Funding Policy - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the year ended June 30, 2017, the Town contributed \$3,640,357 to the plan. All related obligations are paid from the Town's General Fund.

Annual OPEB Cost and Net OPEB Obligation - As of June 30, 2017 and for the year then ended, the Town's Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

NOO as of June 30, 2016	\$	2,694,576
Annual Required Contribution		2,067,000
Interest on NOO		195,357
NOO adjustment		<u>(190,161)</u>
Net annual OPEB cost		2,072,196
Contributions made (includes b)		<u>(3,869,169)</u>
NOO as of June 30, 2017	\$	<u>897,603</u>

Trend Information

Year	Actuarial annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2015	\$ 1,323,856	\$ 2,159,470	163%	\$ 3,212,390
2016	1,925,610	2,443,424	127%	2,694,576
2017	2,072,196	3,869,169	187%	897,603

Plan Actuarial Value and Funding Progress

As of June 30, 2015, the plan was funded as follows:

Actuarial accrued liability (AAL)	\$	20,977,000
Value of plan assets		<u>8,238,000</u>
Unfunded actuarial accrued liability (UAAL)		<u>\$ 12,739,000</u>
Funded ratio (value of plan assets/AAL)		39.27%
Projected covered payroll (active Plan Members)	\$	15,059,000
UAAL as a percentage of covered payroll		84.59%

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

In the June 30, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are listed on the following page.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

1. Ultimate investment return of 7.25% (upward trend 0.25%-0.3% per year to 7.25% in FY 18/19)
2. Projected salary increases of 3.25%.
3. The annual healthcare cost trend ultimate rate is 5%. The select rates were 7.5%-7.8% depending on plans but were reduced to the ultimate rate in 2021.
4. Total inflation is assumed to increase 3% annually.
5. Amortization method: Level percentage of payroll.
6. Amortization period:
 - a. 30-year closed period for initial unfunded actuarial accrued liability (UAAL) (22 years remaining as of June, 30, 2015);
 - b. 20-year closed period for method, assumption, and plan changes;
 - c. 15-year closed period for gains and losses; and
 - d. Maximum 30 year combined period.
7. Actuarial method for valuing assets: Investment gains and losses spread over a 5-year rolling period, not less than 80% or more than 120% of market value.

Funded Status per Valuation Date (Required Supplementary Information)

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (overfunded) Liabilities	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2011	\$ 22,121,000	\$ 1,947,000	\$ 20,174,000	8.80%	\$ 14,123,000	142.80%
6/30/2013	19,211,000	4,652,000	14,559,000	24.20%	14,440,000	100.80%
6/30/2015	20,977,000	8,238,000	12,739,000	39.27%	15,059,000	84.59%

NOTE 11 - RISK MANAGEMENT

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 - RISK MANAGEMENT, CONTINUED

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

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

The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2017:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2015	\$ 869,224	\$ 132,848	\$ 1,002,072
Claims incurred	1,059,523	474,639	1,534,162
Claims paid	(894,681)	(488,015)	(1,382,696)
Claims payable balance - June 30, 2016	1,034,066	119,472	1,153,538
Claims incurred	716,153	229,151	945,304
Claims paid	(650,483)	(99,967)	(750,450)
Claims payable balance - June 30, 2017	<u>\$ 1,099,735</u>	<u>\$ 248,656</u>	<u>\$ 1,348,391</u>

NOTE 12 - REDEVELOPMENT AGENCY DISSOLUTION

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

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

Successor Agency - As of June 30, 2017, the Successor Agency trust fund reported a net deficit of \$8,450,357.

Encumbrances - As of June 30, 2017, the town had the following encumbered balances that were carried into the next fiscal year:

General Fund	\$ 34,852
Appropriated Reserves Fund	9,740,512
Non-major Governmental Funds	<u>75,621</u>
Total Encumbrances	<u><u>\$ 9,850,985</u></u>

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS, CONTINUED

Affordable Housing Cooperative Agreement

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

NOTE 16 - PRIOR PERIOD ADJUSTMENTS

The Town recorded prior period adjustments to adjust sales tax accrual, remove the CalPERS Deposit account, remove custodial account amortization for investments, and remove the unavailable revenue relating to loans receivable in the General fund and Community Development fund.

Government-wide Statements

	Net Position, as Previously Reported	Prior Period Adjustments			Net Position as Restated
		Sales Tax Accrual	CalPERS Deposits	Custodial Amortization	
Government-Wide Statements					
Governmental Activities	\$ 112,514,506	\$ 372,050	\$ 1,804,511	\$ 47,197	\$ 114,738,262

Fund Financial Statements

	Fund Balance as Previously Reported	Prior Period Adjustments				Fund Balance as Restated
		Sales Tax Accrual	CalPERS Deposits	Custodial Amortization	Unavailable Revenue	
Governmental Funds						
General Fund	\$ 29,574,272	\$ 372,050	\$ 1,804,511	\$ 47,197	\$ 159,000	\$ 31,957,030
Community Development Fund						
Special Revenue Fund	\$ 70,010	\$ -	\$ -	\$ -	\$ 98,660	\$ 168,670

This page intentionally left blank

Required Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Schedule of Changes in the Net Pension Liability and Related Ratios – CalPERS Misc. Agent-Multiple Employer Plan

Measurement Date	6/30/2016	6/30/2015	6/30/2014
Total Pension Liability			
Service Cost	\$ 1,560,679	\$ 1,491,925	\$ 1,579,547
Interest on total pension liability	6,697,247	6,483,032	6,268,015
Difference between expected and actual experience	(357,870)	-	-
Changes in assumptions	-	(623,495)	-
Changes in benefits	-	(1,513,132)	-
Benefit payments, including refunds of employee contributions	-	-	-
	(4,953,756)	(4,748,786)	(4,241,487)
Net change in total pension liability	2,946,300	1,089,544	3,606,075
Total pension liability - beginning	89,600,121	88,510,577	84,904,502
Total pension liability - ending (a)	\$ 92,546,421	\$ 89,600,121	\$ 88,510,577
Plan fiduciary net position			
Contributions - employer	2,223,782	1,941,765	1,796,079
Contributions - employee	691,770	679,796	668,167
Plan to plan resource movement	(28,866)	22,561	-
Projected Earnings on Plan Investments	-	-	4,328,173
Recognized Difference between Projected and Actual Earning	-	-	1,166,344
Net Investment Income	369,185	1,470,873	-
Net Difference between Projected and Actual Earnings	-	-	4,665,374
Benefit payments, including refunds of employee contribution	(4,953,756)	(4,748,786)	(4,241,487)
Administrative Expenses	(40,462)	(74,706)	-
Net change in plan fiduciary net position	(1,738,347)	(708,497)	8,382,650
Plan fiduciary net position - beginning	66,390,878	67,099,375	58,716,725
Plan fiduciary net position - ending (b)	\$ 64,652,531	\$ 66,390,878	\$ 67,099,375
Net pension liability - ending (a) - (b)	\$ 27,893,890	\$ 23,209,243	\$ 21,411,202
Plan fiduciary net position as a percentage of the total pension liability	69.86%	74.10%	75.81%
Covered payroll	9,198,318	8,487,940	8,406,315
Net pension liability as a percentage of covered payroll	303.25%	273.44%	254.70%

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes in assumptions: For 2015, the discount rate was changed from 7.5% (net of administrative expense) to 7.65%.

*Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

Measurement Date	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Proportion of the net pension liability	0.22394%	0.14860%	0.28588%
Proportionate share of the net pension liability	\$ 19,377,843	\$ 10,199,904	\$ 17,788,690
Covered payroll	\$ 5,022,498	\$ 4,897,104	\$ 4,916,535
Proportionate share of the net pension liability as percentage of covered payroll	385.82%	208.28%	361.81%
Plan fiduciary net position as a percentage of of the total pension liability	74.06%	78.40%	75.66%

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes in assumptions: For 2015, the discount rate was changed from 7.5% (net of administrative expense) to 7.65%.

*Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Schedule of Pension Plan Contributions – Miscellaneous Agent-Multiple Employer Plan

Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 2,407,496	\$ 2,223,782	\$ 1,941,765
Contributions in Relation to the Actuarially Determined Contribution	<u>(2,407,496)</u>	<u>(2,223,782)</u>	<u>(1,941,765)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
 Covered Payroll	 9,190,767	 9,198,318	 8,487,940
 Contributions as a Percentage of Covered Payroll	 26.19%	 24.18%	 22.88%

*Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Schedule of Pension Plan Contributions – Safety Cost-Sharing Plan

Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 1,738,150	\$ 1,586,129	\$ 1,999,757
Contributions in Relation to the Actuarially Determined Contribution	<u>(1,738,150)</u>	<u>(1,586,129)</u>	<u>(1,999,757)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
 Covered Payroll	 4,941,138	 5,022,498	 4,897,104
 Contributions as a Percentage of Covered Payroll	 35.18%	 31.58%	 40.84%

*Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Other Post-Employment Benefits (OPEB)

Schedule of funding progress for the past three actuarial valuation is presented below:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (overfunded) Liabilities	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2011	\$ 22,121,000	\$ 1,947,000	\$ 20,174,000	8.80%	\$ 14,123,000	142.80%
6/30/2013	19,211,000	4,652,000	14,559,000	24.20%	14,440,000	100.80%
6/30/2015	20,977,000	8,238,000	12,739,000	39.27%	15,059,000	84.59%

Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
MAJOR GOVERNMENT FUND SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
NONMAJOR GOVERNMENTAL FUNDS

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

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

Capital Projects Funds:

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

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

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

Special Revenue Funds:

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

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

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

**TOWN OF LOS GATOS
 APPROPRIATED RESERVES FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (GAAP)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses & permits	\$ 80,000	\$ 80,000	\$ 149,763	\$ 69,763
Intergovernmental	160,000	190,307	193,040	2,733
Charges for services	471,000	485,693	598,614	112,921
Interest	20,000	20,000	21,335	1,335
Other	992,000	950,474	523,474	(427,000)
Total Revenues	<u>1,723,000</u>	<u>1,726,474</u>	<u>1,486,226</u>	<u>(240,248)</u>
EXPENDITURES				
Capital outlay	<u>12,897,748</u>	<u>5,332,458</u>	<u>5,391,206</u>	<u>(58,748)</u>
Total Expenditures	<u>12,897,748</u>	<u>5,332,458</u>	<u>5,391,206</u>	<u>(58,748)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(11,174,748)</u>	<u>(3,605,984)</u>	<u>(3,904,980)</u>	<u>(298,996)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	9,859,973	10,490,067	7,593,867	(2,896,200)
Transfers (out)	<u>(209,808)</u>	<u>(209,808)</u>	<u>(202,905)</u>	6,903
Total Other Financing Sources (Uses)	<u>9,650,165</u>	<u>10,280,259</u>	<u>7,390,962</u>	<u>(2,889,297)</u>
CHANGE IN FUND BALANCE	<u>\$ (1,524,583)</u>	<u>\$ 6,674,275</u>	3,485,982	<u>\$ (3,188,293)</u>
BEGINNING FUND BALANCE			<u>14,616,049</u>	
ENDING FUND BALANCE			<u>\$ 18,102,031</u>	

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2017

	CAPITAL PROJECTS FUNDS				
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund
ASSETS					
Cash & Investments	\$ 1,807,691	\$ 2,929,116	\$ 693,506	\$ 5,430,313	\$ 94,412
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental Receivable	-	-	-	-	58,344
Long Term Notes Receivable	-	-	-	-	78,752
Total Assets	\$ 1,807,691	\$ 2,929,116	\$ 693,506	\$ 5,430,313	\$ 231,508
LIABILITIES					
Accounts Payable	\$ 2,249	\$ -	\$ -	\$ 2,249	\$ -
Accrued Payroll and Benefits	-	-	-	-	-
Unearned revenue	-	-	-	-	64,855
Total Liabilities	2,249	-	-	2,249	64,855
FUND BALANCE					
Restricted for:					
Repairs and Maintenance	-	-	-	-	-
Capital Projects	1,805,442	2,929,116	693,506	5,428,064	-
Assigned for:					
Special Revenue Funds	-	-	-	-	166,653
Total Fund Balances	1,805,442	2,929,116	693,506	5,428,064	166,653
Total Liabilities and Fund Balances	\$ 1,807,691	\$ 2,929,116	\$ 693,506	\$ 5,430,313	\$ 231,508

(Continued)

SPECIAL REVENUE FUNDS

Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total Nonmajor Governmental Funds
\$ (124,387)	\$ 198,889	\$ 168,914	\$ 5,599,227
146,181	-	146,181	146,181
-	4,133	62,477	62,477
-	-	78,752	78,752
<u>\$ 21,794</u>	<u>\$ 203,022</u>	<u>\$ 456,324</u>	<u>\$ 5,886,637</u>
\$ 2,346	\$ 3,379	\$ 5,725	\$ 7,974
4,554	-	4,554	4,554
-	-	64,855	64,855
<u>6,900</u>	<u>3,379</u>	<u>75,134</u>	<u>77,383</u>
-	199,643	199,643	199,643
-	-	-	5,428,064
14,894	-	181,547	181,547
<u>14,894</u>	<u>199,643</u>	<u>381,190</u>	<u>5,809,254</u>
<u>\$ 21,794</u>	<u>\$ 203,022</u>	<u>\$ 456,324</u>	<u>\$ 5,886,637</u>

(Concluded)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	CAPITAL PROJECTS FUNDS				
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	23,165	-	23,165	-
License and permits	135,468	-	-	135,468	-
Intergovernmental	-	-	604,975	604,975	9,280
Charges for Services	-	-	-	-	-
Interest	14,670	24,450	6,496	45,616	-
Other	-	-	-	-	3,994
Total Revenues	150,138	47,615	611,471	809,224	13,274
EXPENDITURES					
Current:					
Parks and Public Works	-	-	-	-	15,291
Sanitation and Other	-	-	-	-	-
Capital Outlay	12,750	-	1,463,078	1,475,828	-
Total Expenditures	12,750	-	1,463,078	1,475,828	15,291
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	137,388	47,615	(851,607)	(666,604)	(2,017)
OTHER FINANCING SOURCES (USES)					
Transfers (out)	-	-	(106,000)	(106,000)	-
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)	-
Changes in Fund Balances	137,388	47,615	(957,607)	(772,604)	(2,017)
Fund Balances - Beginning of year, as restated	1,668,054	2,881,501	1,651,113	6,200,668	168,670
Fund Balances - End of year	\$ 1,805,442	\$ 2,929,116	\$ 693,506	\$ 5,428,064	\$ 166,653

(Continued)

SPECIAL REVENUE FUNDS

Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total
\$ -	\$ 38,369	\$ 38,369	\$ 38,369
-	-	-	23,165
30,780	-	30,780	166,248
-	-	9,280	614,255
341,846	-	341,846	341,846
-	1,570	1,570	47,186
-	-	3,994	3,994
<u>372,626</u>	<u>39,939</u>	<u>425,839</u>	<u>1,235,063</u>
-	20,709	36,000	36,000
466,762	-	466,762	466,762
-	-	-	1,475,828
<u>466,762</u>	<u>20,709</u>	<u>502,762</u>	<u>1,978,590</u>
(94,136)	19,230	(76,923)	(743,527)
-	(4,920)	(4,920)	(110,920)
-	(4,920)	(4,920)	(110,920)
(94,136)	14,310	(81,843)	(854,447)
109,030	185,333	463,033	6,663,701
<u>\$ 14,894</u>	<u>\$ 199,643</u>	<u>\$ 381,190</u>	<u>\$ 5,809,254</u>

(Concluded)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	30,780	30,780	-
Intergovernmental	70,000	9,280	(60,720)	-	-	-
Charges for services	-	-	-	336,684	341,846	5,162
Interest	-	-	-	-	-	-
Other	-	3,994	3,994	-	-	-
Total Revenues	<u>70,000</u>	<u>13,274</u>	<u>(56,726)</u>	<u>367,464</u>	<u>372,626</u>	<u>5,162</u>
EXPENDITURES						
Parks and public works	-	15,291	(15,291)	-	-	-
Sanitation and other	-	-	-	516,882	466,762	50,120
Capital outlay	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>15,291</u>	<u>(15,291)</u>	<u>516,882</u>	<u>466,762</u>	<u>50,120</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>70,000</u>	<u>(2,017)</u>	<u>(72,017)</u>	<u>(149,418)</u>	<u>(94,136)</u>	<u>55,282</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>\$ 70,000</u>	<u>(2,017)</u>	<u>\$ (72,017)</u>	<u>\$ (149,418)</u>	<u>(94,136)</u>	<u>\$ 55,282</u>
BEGINNING FUND BALANCE, AS RESTATED		<u>168,670</u>			<u>109,030</u>	
ENDING FUND BALANCE		<u>\$ 166,653</u>			<u>\$ 14,894</u>	

(Continued)

LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS			CONSTRUCTION TAX		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ 37,775	\$ 38,369	\$ 594	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	30,000	23,165	(6,835)
-	-	-	92,500	135,468	42,968	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
641	1,570	929	13,380	14,670	1,290	20,000	24,450	-
-	-	-	-	-	-	-	-	-
<u>38,416</u>	<u>39,939</u>	<u>1,523</u>	<u>105,880</u>	<u>150,138</u>	<u>44,258</u>	<u>50,000</u>	<u>47,615</u>	<u>(6,835)</u>
20,250	20,709	(459)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	12,750	(12,750)	-	-	-
<u>20,250</u>	<u>20,709</u>	<u>(459)</u>	<u>-</u>	<u>12,750</u>	<u>(12,750)</u>	<u>-</u>	<u>-</u>	<u>-</u>
18,166	19,230	1,064	105,880	137,388	31,508	50,000	47,615	(2,385)
(4,920)	(4,920)	-	-	-	-	-	-	-
(4,920)	(4,920)	-	-	-	-	-	-	-
<u>\$ 13,246</u>	<u>14,310</u>	<u>\$ 1,064</u>	<u>\$ 105,880</u>	<u>137,388</u>	<u>\$ 31,508</u>	<u>\$ 50,000</u>	<u>47,615</u>	<u>\$ (2,385)</u>
	185,333			1,668,054			2,881,501	
	<u>\$ 199,643</u>			<u>\$ 1,805,442</u>			<u>\$ 2,929,116</u>	

(Continued)

	GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 37,775	\$ 38,369	\$ 594
Other taxes	-	-	-	30,000	23,165	(6,835)
License and permits	-	-	-	123,280	166,248	42,968
Intergovernmental	604,244	604,975	731	674,244	614,255	10,011
Charges for services	-	-	-	336,684	341,846	5,162
Interest	1,000	6,496	5,496	35,021	47,186	7,715
Other	-	-	-	-	3,994	3,994
Total Revenues	<u>605,244</u>	<u>611,471</u>	<u>6,227</u>	<u>1,237,004</u>	<u>1,235,063</u>	<u>63,609</u>
EXPENDITURES						
Parks and public works	-	-	-	20,250	36,000	(15,750)
Sanitation and other	-	-	-	516,882	466,762	50,120
Capital outlay	1,463,077	1,463,078	(1)	1,463,077	1,475,828	(12,751)
Total Expenditures	<u>1,463,077</u>	<u>1,463,078</u>	<u>(1)</u>	<u>2,000,209</u>	<u>1,978,590</u>	<u>21,619</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(857,833)</u>	<u>(851,607)</u>	<u>6,226</u>	<u>(763,205)</u>	<u>(743,527)</u>	<u>19,678</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers (out)	<u>(106,000)</u>	<u>(106,000)</u>	-	<u>(110,920)</u>	<u>(110,920)</u>	-
Total Other Financing Sources (Uses)	<u>(106,000)</u>	<u>(106,000)</u>	-	<u>(110,920)</u>	<u>(110,920)</u>	-
CHANGE IN FUND BALANCE	<u>\$ (963,833)</u>	<u>(957,607)</u>	<u>\$ 6,226</u>	<u>\$ (874,125)</u>	<u>(854,447)</u>	<u>\$ 19,678</u>
BEGINNING FUND BALANCE, AS RESTATED		<u>1,651,113</u>			<u>6,663,701</u>	
ENDING FUND BALANCE		<u>\$ 693,506</u>			<u>\$ 5,809,254</u>	

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS**

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

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

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

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

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

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

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

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

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

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

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2017

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Information Technology	Vehicle Maintenance	Building Maintenance	Total
ASSETS								
Cash & Investments	\$ 1,908,901	\$ 2,159,114	\$ 1,404,277	\$ 200,846	\$ 3,028,259	\$ 519,115	\$ 541,819	\$ 9,762,331
Restricted Cash & Investments	-	46,698	-	-	-	-	-	46,698
Receivables:								
Accounts	1,589	-	-	-	1,856	-	42,235	45,680
Materials, Supplies and Deposits	-	-	-	-	-	25,020	-	25,020
Equipment (Net)	-	-	-	-	-	-	1,514	1,514
Total Assets	1,910,490	2,205,812	1,404,277	200,846	3,030,115	544,135	585,568	9,881,243
Deferred Outflows of Resources								
Pension contribution subsequent to measurement date	-	19,948	28,438	-	76,597	34,921	55,083	214,987
Pension related amounts	-	29,057	41,425	-	111,575	50,867	80,147	313,071
Total Deferred Outflows of Resources	-	49,005	69,863	-	188,172	85,788	135,230	528,058
LIABILITIES								
Accounts Payable	16,110	15,644	2,286	409	55,661	31,295	103,850	225,255
Accrued Payroll and Benefits	326	3,547	4,762	-	14,382	7,185	10,250	40,452
Due to Other Governments	-	-	-	-	-	167	-	167
Claims Payable	-	1,099,735	248,656	-	-	-	-	1,348,391
Net Pension Liabilities	-	231,120	329,488	-	887,466	404,600	637,781	2,490,455
Total Liabilities	16,436	1,350,046	585,192	409	957,509	443,247	751,881	4,104,720
Deferred Inflows of Resources								
Pension related amounts	-	2,461	3,508	-	9,448	4,306	6,787	26,510
Total Deferred Inflows of Resources	-	2,461	3,508	-	9,448	4,306	6,787	26,510
NET POSITION								
Net investment in capital assets	-	-	-	-	-	-	1,514	1,514
Unrestricted	1,894,054	902,310	885,440	200,437	2,251,330	182,370	(39,384)	6,276,557
Total Net Position	\$ 1,894,054	\$ 902,310	\$ 885,440	\$ 200,437	\$ 2,251,330	\$ 182,370	\$ (37,870)	\$ 6,278,071

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Information Technology	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 381,323	\$ 868,527	\$ 497,401	\$ 130,519	\$ 1,091,467	\$ 573,865	\$ 1,124,537	\$ 4,667,639
Interest	-	8	-	-	-	-	-	8
Use of money and property	-	-	-	-	-	-	215,093	215,093
Other local taxes	-	-	-	-	-	-	23,165	23,165
Other	77,366	157,820	-	-	18,894	3,810	60,771	318,661
Total Operating Revenues	458,689	1,026,355	497,401	130,519	1,110,361	577,675	1,423,566	5,224,566
OPERATING EXPENSES								
Salaries and benefits	9,921	90,695	164,890	-	474,126	233,624	345,735	1,318,991
Insurance expenses	-	272,899	449,442	-	-	-	-	722,341
Depreciation expenses	-	-	-	-	-	-	957	957
Services and supplies	407,039	785,835	133,148	113,210	551,695	242,544	1,010,484	3,243,955
Total Operating Expenses	416,960	1,149,429	747,480	113,210	1,025,821	476,168	1,357,176	5,286,244
Operating Income (loss)	41,729	(123,074)	(250,079)	17,309	84,540	101,507	66,390	(61,678)
Transfers (out)	(295,680)	-	-	-	-	-	-	(295,680)
Net Transfers	(295,680)	-	-	-	-	-	-	(295,680)
Change in Net Position	(253,951)	(123,074)	(250,079)	17,309	84,540	101,507	66,390	(357,358)
BEGINNING NET POSITION	2,148,005	1,025,384	1,135,519	183,128	2,166,790	80,863	(104,260)	6,635,429
ENDING NET POSITION	\$ 1,894,054	\$ 902,310	\$ 885,440	\$ 200,437	\$ 2,251,330	\$ 182,370	\$ (37,870)	\$ 6,278,071

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Information Technology	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$ 457,100	\$ 1,026,355	\$ 497,401	\$ 130,519	\$ 1,114,076	\$ 577,675	\$ 1,402,413	\$ 5,205,539
Payments to suppliers	(391,735)	(782,414)	(149,713)	(119,169)	(583,331)	(232,721)	(1,002,585)	(3,261,668)
Payments to employees	(9,862)	(92,816)	(169,789)	-	(484,999)	(238,992)	(354,348)	(1,350,806)
Claims paid	-	(207,230)	(320,258)	-	-	-	-	(527,488)
Net Cash Provided (Used) by Operating Activities	55,503	(56,105)	(142,359)	11,350	45,746	105,962	45,480	65,577
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers Out	(295,680)	-	-	-	-	-	-	(295,680)
Net Cash Provided (Used) by Noncapital Financing Activities	(295,680)	-	-	-	-	-	-	(295,680)
Net Increase(Decrease) in Cash and Investments	(240,177)	(56,105)	(142,359)	11,350	45,746	105,962	45,480	(230,103)
Cash and investments - beginning of year	2,149,078	2,261,917	1,546,636	189,496	2,982,513	413,153	496,339	10,039,132
Cash and investments - end of year	\$ 1,908,901	\$ 2,205,812	\$ 1,404,277	\$ 200,846	\$ 3,028,259	\$ 519,115	\$ 541,819	\$ 9,809,029
Financial Statement Presentation								
Cash and investment	\$ 1,908,901	\$ 2,159,114	\$ 1,404,277	\$ 200,846	\$ 3,028,259	\$ 519,115	\$ 541,819	\$ 9,762,331
Restricted and investment	-	46,698	-	-	-	-	-	46,698
Total	\$ 1,908,901	\$ 2,205,812	\$ 1,404,277	\$ 200,846	\$ 3,028,259	\$ 519,115	\$ 541,819	\$ 9,809,029
Reconciliation of Operating Income to Cash								
Flows from Operating Activities:								
Operating Income	\$ 41,729	\$ (123,074)	\$ (250,079)	\$ 17,309	\$ 84,540	\$ 101,507	\$ 66,390	\$ (61,678)
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	-	957	957
Change in assets and liabilities:								
Receivables, net	(1,589)	-	-	-	3,715	-	(21,153)	(19,027)
Material and supplies	3,509	-	-	2,167	-	(13,535)	-	(7,859)
Deferred outflows of resources	-	(30,258)	(43,137)	-	(116,187)	(52,970)	(83,498)	(326,050)
Net pension liabilities	-	39,034	55,647	-	149,883	68,332	107,713	420,609
Deferred inflows of resources	-	(12,140)	(17,307)	-	(46,616)	(21,254)	(33,504)	(130,821)
Accounts payable	11,883	3,421	(16,565)	(8,122)	(31,636)	23,191	7,899	(9,929)
Accrued payroll and benefits	59	1,243	(102)	-	2,047	524	676	4,447
Claims payable	-	65,669	129,184	-	-	-	-	194,853
Due to other government	(88)	-	-	(4)	-	167	-	75
Cash Flows From Operating Activities	\$ 55,503	\$ (56,105)	\$ (142,359)	\$ 11,350	\$ 45,746	\$ 105,962	\$ 45,480	\$ 65,577

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FIDUCIARY FUNDS
PRIVATE PURPOSE TRUST FUNDS

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

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

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Library	RDA Successor Agency	Total
ASSETS			
Cash and investments (Note 2)	\$ 537,231	\$ 1,655,254	\$ 2,192,485
Restricted cash and investments (Note 2)	-	1,967,497	1,967,497
Loans receivable (Note 3)	-	563,761	563,761
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	1,728,777	1,728,777
Total Assets	<u>537,231</u>	<u>11,172,711</u>	<u>11,709,942</u>
LIABILITIES			
Accounts payable	5,204	40	5,244
Due to other governments	70	-	70
Interest payable	-	348,518	348,518
Long-term debt (Note 6):			
Due within one year	-	1,105,000	1,105,000
Due in more than one year	-	18,169,510	18,169,510
Total Liabilities	<u>5,274</u>	<u>19,623,068</u>	<u>19,628,342</u>
NET POSITION			
Held in trust	<u>531,957</u>	<u>(8,450,357)</u>	<u>(7,918,400)</u>
Total Net Position	<u>\$ 531,957</u>	<u>\$ (8,450,357)</u>	<u>\$ (7,918,400)</u>

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Library	RDA Successor Agency	Total
ADDITIONS			
Property taxes	\$ -	\$ 1,964,636	\$ 1,964,636
Investment earnings	4,624	6,310	10,934
Gifts, bequests and endowments	79,760	-	79,760
Other	-	1,923,303	1,923,303
Total Additions	<u>84,384</u>	<u>3,894,249</u>	<u>3,978,633</u>
DEDUCTIONS			
Program expenses	-	1,930,143	1,930,143
Interest and fiscal agency expenses of RDA	-	802,166	802,166
Library services	75,499	-	75,499
Depreciation expense	-	101,692	101,692
Total Deductions	<u>75,499</u>	<u>2,834,001</u>	<u>2,909,500</u>
CHANGE IN NET POSITION	8,885	1,060,248	1,069,133
NET POSITION - BEGINNING OF YEAR	<u>523,072</u>	<u>(9,510,605)</u>	<u>(8,987,533)</u>
NET POSITION - END OF YEAR	<u>\$ 531,957</u>	<u>\$ (8,450,357)</u>	<u>\$ (7,918,400)</u>

This page intentionally left blank

Statistical Section

STATISTICAL (UNAUDITED)

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

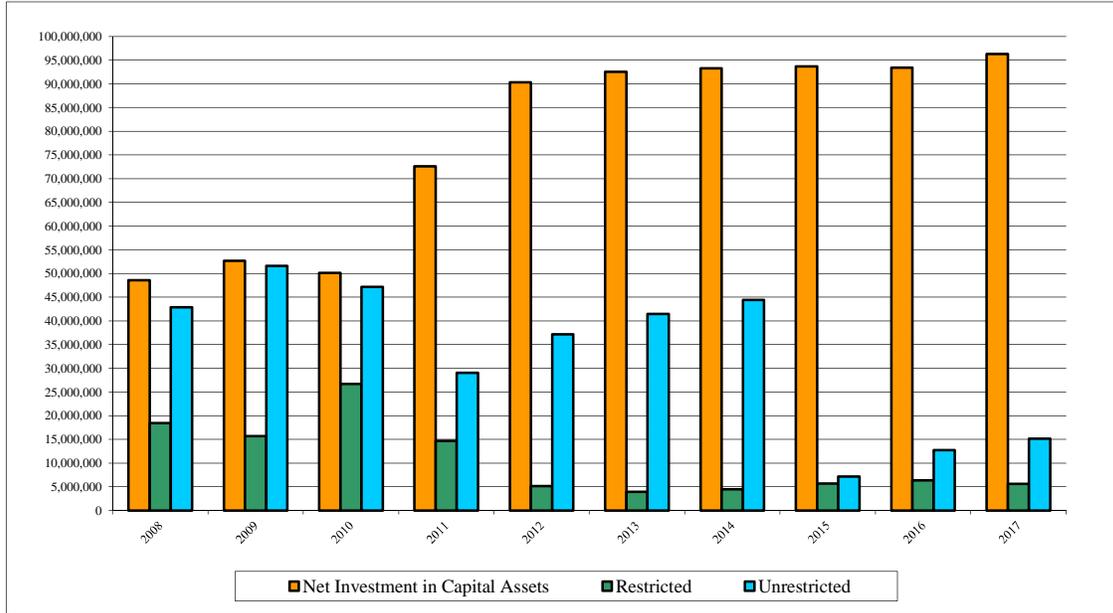
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

Operating Information

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

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

Schedule 1



<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2008	48,581,378	18,459,776	42,884,826	109,925,980
2009	52,665,506	15,663,436	51,619,635	119,948,577
2010	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698 (1)
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130 (2)
2016	93,383,855	6,386,014	12,744,637	112,514,506
2017	96,265,652	5,627,707	15,134,420	117,027,779

(1) The decrease in Restricted Net Position from FY 2010 to FY 2011 was primarily due to the issuance of the \$15.7 million Certificates of Participation in FY 2010.

(2) The decrease in Restricted Net Position GASB 68 Implementation of Unfunded Pension Liability of Statement of Net Position.

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

Schedule 2

Expenses	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Governmental Activities:										
General Government	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804	\$ 6,465,852	\$ 6,993,661	\$ 6,771,628
Police Department	12,313,637	13,467,503	13,266,849	13,495,885	14,124,798	13,731,754	14,119,786	12,644,221	12,825,688	14,587,597
Parks and Public Works	6,958,449	8,671,678	7,458,085	7,155,905	7,827,332	7,829,315	8,154,616	8,069,352	8,320,623	9,502,707
Community Development	3,064,865	3,389,151	3,522,477	3,099,269	3,434,551	4,094,188	4,424,040	4,047,738	3,227,224	5,093,459
Community Services	1,060,922	1,162,284	1,270,240	666,015	-	-	-	-	-	-
Library Services	1,956,767	2,067,476	2,038,009	1,892,805	1,938,577	2,128,823	2,234,431	2,553,414	2,522,142	2,868,748
Sanitation	502,196	407,048	655,713	342,893	158,205	393,205	363,180	491,359	528,580	466,762
Redevelopment	3,360,585	2,939,550	6,992,935	16,794,022	919,821	1,277,063	21,687	-	-	-
Interest and Fees	670,415	631,159	612,700	1,278,381	1,123,842	-	-	-	-	-
Total Governmental Activities	\$ 35,121,566	\$ 38,059,316	\$ 40,464,809	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544	\$ 34,271,936	\$ 34,417,918	\$ 39,290,901
Program Revenues										
Charges for Services:										
General Government	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077	\$ 1,888,213	\$ 1,517,012	\$ 1,669,020
Police Department	895,569	1,358,361	2,110,357	2,153,843	2,324,397	2,450,630	3,206,579	3,529,166	3,278,585	2,076,688
Parks and Public Works	576,107	637,933	779,300	810,022	1,215,382	3,044,401	1,550,867	2,206,765	1,516,108	2,155,841
Community Development	2,954,123	2,700,614	3,404,087	3,097,192	3,448,433	4,649,444	5,156,061	5,027,497	4,359,146	3,803,626
Community Services	-	147,895	134,366	98,803	-	-	-	-	-	-
Library Services	60,123	56,932	57,633	39,491	37,662	50,696	51,775	53,123	46,192	46,746
Sanitation	166,660	135,000	135,000	135,000	135,000	403,294	328,648	328,868	368,813	410,626
Operating Grants and Contributions:										
General Government	54,242	8,834	10,237	15,638	6,453	8,406	-	-	15,291	-
Police Department	744,347	538,629	81,997	27,748	29,980	91,360	42,661	24,838	98,138	837,329
Parks and Public Works	565,857	633,923	594,775	809,272	993,827	835,724	994,096	907,745	749,300	665,779
Community Services	146,236	190,447	124,287	182,683	-	-	-	-	-	-
Library Services	11,409	10,462	13,996	10,662	109	40	14,662	4,062	12,228	-
Sanitation	41,044	39,891	25,103	9,002	-	-	-	-	-	-
Capital Grants and Contributions:										
General Government	-	-	-	-	-	169,270	-	176,705	-	-
Parks and Public Works	2,020,121	1,330,638	3,074,453	2,375,759	641,811	2,757,660	2,274,879	2,338,154	1,610,657	770,600
Community Development	-	-	-	-	-	-	19,360	-	-	9,280
Total Program Revenues	\$ 9,385,749	\$ 8,944,968	\$ 11,883,363	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665	\$ 16,485,136	\$ 13,571,470	\$ 12,445,535
General Revenues										
Property Taxes	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312	\$ 12,931,603	\$ 13,763,458	\$ 14,756,214
Sales Taxes	9,345,432	8,487,000	8,317,217	9,971,409	9,889,100	8,757,428	8,029,571	8,202,678	7,501,175	8,925,276
Franchise Taxes	-	-	-	-	-	-	-	2,215,430	2,258,892	2,366,908
Other Taxes	2,904,908	2,664,698	2,623,622	2,906,264	3,698,753	3,324,791	3,718,405	2,062,893	1,997,497	2,351,223
Motor Vehicle in Lieu	137,330	101,265	92,595	139,814	15,238	15,790	13,068	-	12,308	14,056
Investment Earnings	4,190,951	2,949,119	1,155,929	760,905	331,420	(133,375)	772,200	428,772	698,324	192,260
Loss on Disposal of Capital Assets	-	-	-	-	-	-	-	-	-	-
Sale of Property	-	6,525,000	-	(870,127)	-	54,425	-	-	-	-
Miscellaneous	9,842	66,802	52,459	41,943	2,275,160	1,154,647	350,468	813,324	598,170	528,946
Extraordinary Gain (Loss) Dissolution of RDA	-	-	-	-	11,864,453	295,101	-	-	-	-
Total General Revenues	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024	\$ 26,654,700	\$ 26,829,824	\$ 29,134,883
Change in Net Position	\$ 8,163,698	\$ 10,022,599	\$ 2,516,457	\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145	\$ 8,867,900	\$ 5,983,376	\$ 2,289,517

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

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

	Fiscal Year										
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
General Fund											
Reserved	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	16,406,211	17,236,569	16,861,752	18,594,984	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	1,500,000	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	21,806,781	21,992,886	20,758,156	23,791,749	24,121,256	20,019,187	15,129,925
Unassigned	-	-	-	-	2,433,556	4,019,409	7,502,446	1,363,376	-	9,555,085	14,050,699
Total General Fund	\$ 21,138,605	\$ 19,284,830	\$ 25,027,359	\$ 23,086,573	\$ 25,740,337	\$ 26,012,295	\$ 28,260,602	\$ 25,155,125	\$ 24,121,256	\$ 29,574,272	\$ 29,180,624
All Other Governmental Funds											
Reserved	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:											
Special Revenue Funds	836,191	1,030,161	522,105	225,509	-	-	-	-	-	-	-
Capital Project Funds	8,169,857	11,719,905	11,203,521	24,454,347	-	-	-	-	-	-	-
Debt Service Funds	3,849,382	5,747,185	7,526,557	6,953,732	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	14,764,334	5,167,236	3,949,583	4,485,246	5,663,182	6,386,014	5,627,707
Committed	-	-	-	-	-	-	-	-	-	3,696,000	10,354,584
Assigned	-	-	-	-	4,786,547	5,389,674	6,097,182	8,191,823	15,346,558	11,099,076	7,928,994
Unassigned	-	-	-	-	(23,889)	107,107	157,208	183,045	206,875	-	-
Total All Other Governmental Funds	\$ 28,675,775	\$ 33,414,880	\$ 34,517,310	\$ 42,158,972	\$ 19,526,992	\$ 10,664,017	\$ 10,203,973	\$ 12,860,114	\$ 21,216,615	\$ 21,181,090	\$ 23,911,285
Total Fund Balances	\$ 49,814,380	\$ 52,699,710	\$ 59,544,669	\$ 65,245,545	\$ 45,267,329	\$ 36,676,312	\$ 38,464,575	\$ 38,015,239	\$ 45,337,871	\$ 50,755,362	\$ 53,091,909

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

Schedule 4

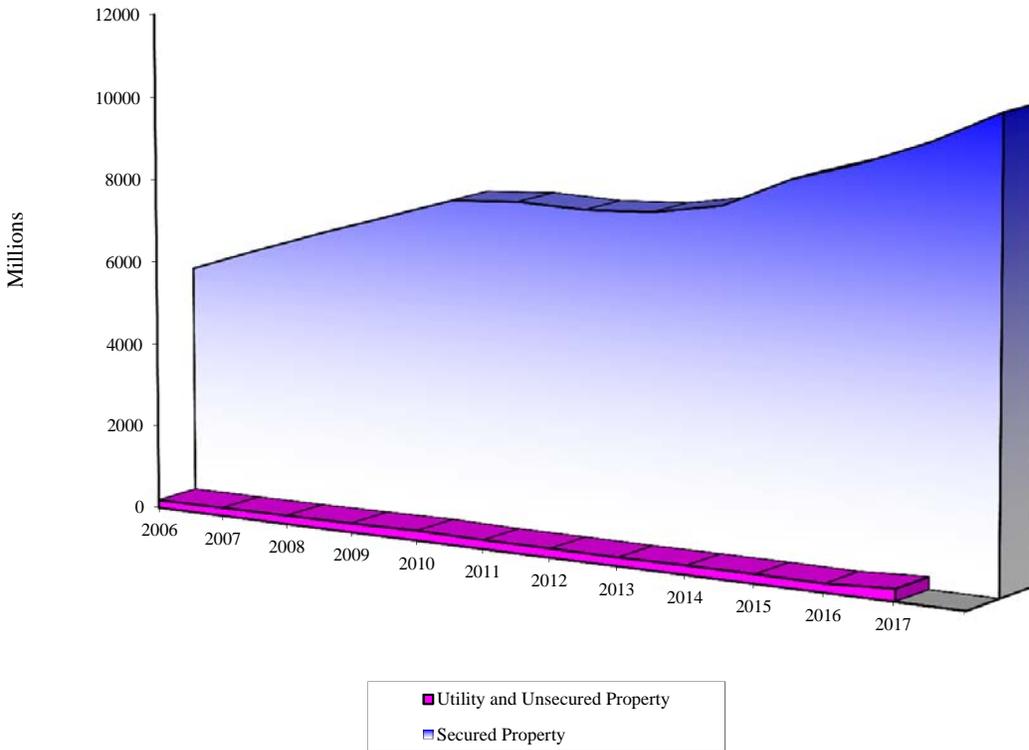
	Fiscal Year									
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenues:										
Taxes	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820	\$ 23,269,892	\$ 25,945,129
Intergovernmental	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002	2,573,475	1,715,580
Charges for Service	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386	4,773,001	4,210,174
Licenses & Permits	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771	5,442,133	5,075,503
Investment Income	4,190,955	2,949,120	1,174,203	691,022	291,484	(133,380)	772,164	428,735	698,308	192,978
Fines and Forfeitures	369,292	618,771	662,699	737,903	809,790	688,125	795,720	868,564	879,277	917,105
Franchise Fees	-	-	-	-	-	-	-	2,215,430	2,258,892	2,366,908
Use of Property	-	60,749	51,948	38,502	38,974	38,910	37,741	32,209	31,723	32,096
Other	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975	2,396,992	2,935,242
Total Revenues	44,976,665	43,100,650	45,439,566	46,245,149	44,692,043	42,928,334	42,350,268	45,067,892	42,323,693	43,390,715
Expenditures:										
Current										
Public Safety	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198	13,763,316	13,251,288
Public Works	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097	6,307,266	6,633,748
Community Development	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500	3,695,504	3,793,930
Community Services	1,056,835	1,149,290	1,261,981	663,645	-	-	-	-	-	-
Library Services	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479	2,055,069	2,131,438	2,268,844	2,332,268	2,508,677
Sanitation & Other	470,660	375,483	642,512	314,899	116,607	359,725	322,817	411,863	452,726	466,762
General Government	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451	9,144,797	10,314,262
Redevelopment	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063	21,687	-	-	-
Capital Outlay	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478	3,241,657	6,867,034
Debt Service										
Principal Repayment	429,167	445,000	465,000	485,000	934,167	-	-	-	-	-
Interest and Fiscal Charges	676,913	638,221	620,356	1,019,881	1,143,185	-	-	-	-	-
Total Expenditures	42,195,302	43,419,514	56,733,967	66,606,303	48,317,986	41,814,015	38,762,529	38,934,431	38,937,534	43,835,701
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	2,781,363	(318,864)	(11,294,401)	(20,361,154)	(3,625,943)	1,114,319	3,587,739	6,133,461	3,386,159	(444,986)
Other Financing Sources(Uses):										
Debt Issuance	-	-	16,428,095	-	-	-	-	-	-	-
Transfers In	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220	3,315,846	7,907,692
Transfers Out	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)	(1,284,514)	(7,612,012)
Proceeds from sales of capital assets	-	-	-	-	-	-	-	-	-	4,435
Total Other Financing Sources(Uses)	103,970	638,823	16,995,276	382,939	73,546	378,031	497,463	1,189,171	2,031,332	300,115
Special Item:										
Sale of Property	-	6,525,000	-	-	-	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	(5,038,620)	295,913	-	-	-	-
Prepayment of Pension Obligations	-	-	-	-	-	-	(4,534,538)	-	-	-
Net Change in Fund Balances	\$ 2,885,333	\$ 319,959	\$ 5,700,875	\$ (19,978,215)	\$ (3,552,397)	\$ 1,492,350	\$ 4,085,202	\$ 7,322,632	\$ 5,417,491	\$ (144,871)
Debt Service as a Percentage										
of Non Capital Expenditures	3.30%	3.04%	2.67%	2.96%	5.56%	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

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

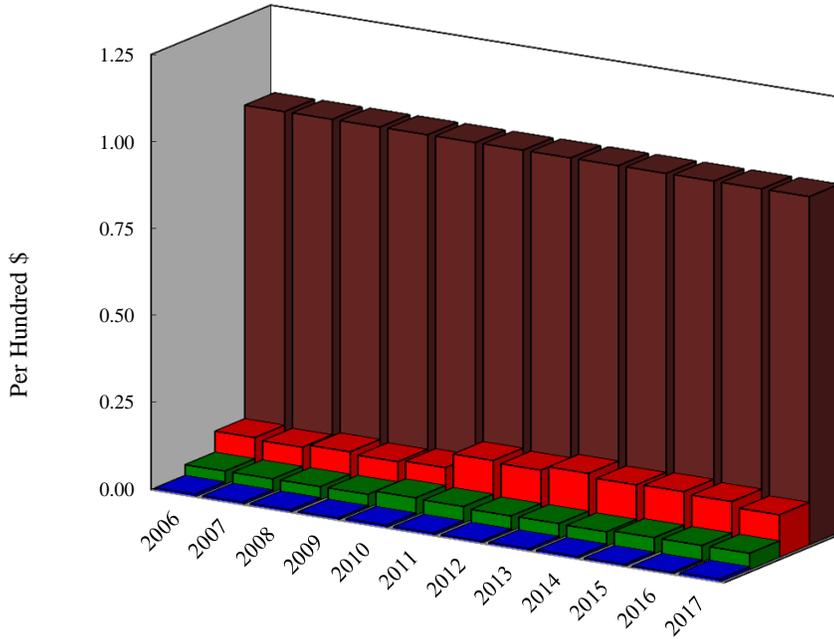
Schedule 5



Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2008	\$ 201,629,315	3.83%	\$ 7,392,958,751	8.08%	\$ 7,594,588,066	\$ 29,571,835,004	1.0459
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0449
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0584
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0555
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533
2017	304,443,013	40.27%	11,240,554,198	7.90%	11,544,997,211	44,962,216,792	1.0560

Source: Santa Clara County Assessed Value Report

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



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

Fiscal Year	Basic County Wide Levy	County Retirement Levy and County Hospital Bond	Santa Clara Valley Water District	School District Bonds and Loans	Total
2008	1.0000	0.0388	0.0071	0.1032	1.1491
2009	1.0000	0.0388	0.0061	0.0970	1.1419
2010	1.0000	0.0510	0.0074	0.1021	1.1605
2011	1.0000	0.0483	0.0072	0.1449	1.2004
2012	1.0000	0.0435	0.0064	0.1393	1.1892
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914
2017	1.0000	0.0474	0.0086	0.1223	1.1783

Source: Santa Clara County Book of Tax Rates

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

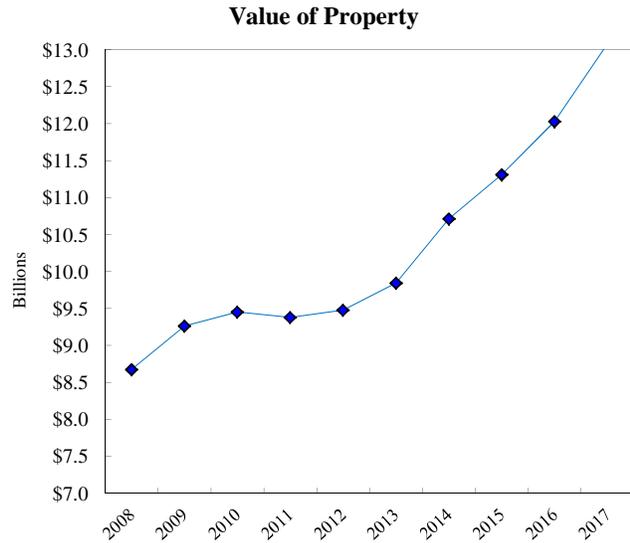
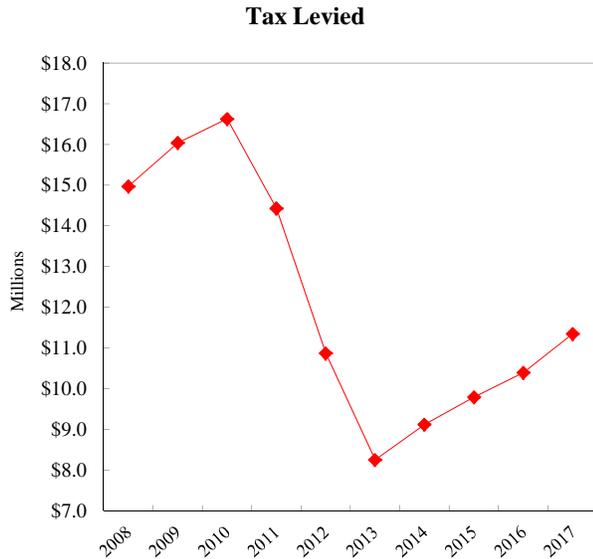
Schedule 7

ASSESSEE NAME	2012/13		2013/14		2014/15		2015/16		2016/17	
	Taxable Assessed	Percentage of Total City Taxable Assessed	Taxable Assessed	Percentage of Total City Taxable Assessed	Taxable Assessed	Percentage of Total City Taxable Assessed	Taxable Assessed	Percentage of Total City Taxable Assessed	Taxable Assessed	Percentage of Total City Taxable Assessed
	Value	Value								
Sobrato Interests IV/Sobrato Land Holdings	\$157,559,245	1.86%	\$169,809,676	2.01%	\$20,869,338	0.21%	\$44,930,482	0.43%	\$42,240,994	0.38%
Boccardo Corporation	\$37,550,368	0.44%	\$38,617,912	0.46%	\$38,772,905	0.40%	\$21,617,318	0.21%	\$21,918,921	0.20%
Knowles Los Gatos LLC	\$47,045,934	0.56%	\$47,986,850	0.57%	\$48,204,708	0.49%	\$49,167,836	0.47%	\$49,917,644	0.44%
SRI Old Town LLC	\$30,374,286	0.36%	\$30,981,771	0.37%	\$31,122,427	0.32%	\$31,744,252	0.30%	\$32,228,351	0.29%
CH Realty IV Downing LP	\$19,525,927	0.23%	\$19,916,443	0.24%	-	0.00%	-	0.00%	-	0.00%
Hercules Holding II LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Health Care REIT Inc,	\$19,223,348	0.23%	\$20,671,960	0.24%	\$20,765,810	0.21%	\$20,089,903	0.19%	\$20,396,274	0.18%
750 University LLC	\$12,137,999	0.14%	\$18,600,000	0.22%	\$19,000,000	0.19%	\$19,379,620	0.19%	\$19,675,159	0.18%
Grosvenor USA Ltd.	\$22,437,962	0.27%	\$22,886,720	0.27%	\$22,990,624	0.24%	\$23,449,975	0.23%	-	-
Alberto Way Holdings LLC	\$23,145,064	0.27%	\$23,607,964	0.28%	\$23,715,141	0.24%	\$24,188,966	0.23%	\$24,557,845	0.22%
D&K Los Gatos LLC	\$15,590,010	0.18%	\$15,901,809	0.19%	\$15,974,003	0.16%	\$16,293,163	0.16%	-	-
CHL Ventures LP	\$20,671,962	0.24%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
San Jose Water Works	\$30,882,009	0.36%	\$33,626,381	0.40%	\$36,693,453	0.38%	\$37,081,049	0.36%	\$38,710,728	0.34%
Toll House Hotel LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Grade Way Associations VI	\$14,798,651	0.17%	\$15,094,623	0.18%	\$15,163,152	0.16%	-	0.00%	-	0.00%
Lyon Baytree Apartments LLC	\$14,430,123	0.17%	\$14,674,716	0.17%	-	0.00%	-	0.00%	-	0.00%
KSL Capital Partners	\$42,532,721	0.50%	\$43,383,370	0.51%	\$43,580,326	0.45%	\$30,134,614	0.29%	\$30,105,945	0.27%
Los Gatos Hotel Corp.	\$15,617,134	0.18%	\$18,134,182	0.21%	\$15,573,314	0.16%	\$15,676,113	0.15%	-	-
David A. and Shari Flick Trustee	\$15,018,971	0.18%	-	0.00%	\$15,388,884	0.16%	-	0.00%	-	0.00%
Pter R. Hofman	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Paul H. Roskoph	\$13,416,452	0.16%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Good Samaritan Hospital LP	\$19,530,183	0.23%	\$19,710,897	0.23%	\$19,602,594	0.20%	\$19,880,366	0.19%	\$22,402,756	0.20%
Windrose Los Gatos Properties LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Park Row East Apartments Ltd.	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
LG Business Park LLC	-	0.00%	\$47,276,977	0.56%	\$39,347,485	0.40%	\$17,507,261	0.17%	\$31,070,572	0.28%
Green Eyes LLC	\$12,542,555	0.15%	\$12,793,404	0.15%	-	0.00%	-	0.00%	-	0.00%
Go and Kay Karou Sasaki	-	0.00%	\$22,752,809	0.27%	-	0.00%	\$24,744,983	0.24%	\$25,122,131	0.22%
Ann R. Desantis	-	0.00%	\$13,823,779	0.16%	-	0.00%	-	0.00%	-	0.00%
DS Downing Los Gatos LLC	-	0.00%	-	0.00%	\$20,006,861	0.20%	\$21,980,568	0.21%	\$22,315,770	0.20%
El Camino Hospital	-	0.00%	-	0.00%	\$20,803,609	0.21%	\$26,477,160	0.25%	\$26,880,933	0.24%
LG Hotel LLC	-	0.00%	-	0.00%	\$15,448,057	0.16%	\$15,497,395	0.15%	-	-
SI 32 LLC	-	0.00%	-	0.00%	\$150,563,119	1.54%	\$141,348,894	1.36%	\$143,442,269	1.28%
Wealthcap Los Gatos 121	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$109,100,000	0.97%
Wealthcap Los Gatos 31	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$84,000,000	0.75%
Leland E Lester, Trustee	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$29,004,169	0.26%
DS Village Square	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$22,799,599	0.20%
Summerhill Prospect Avenue LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$18,274,508	0.16%
LG Business Park Bldg 1, 2 & 3 LLC	-	0.00%	-	0.00%	-	0.00%	\$61,947,284	0.59%	-	-
Total - Principal taxpayers	\$ 584,030,904	6.90%	\$ 650,252,243	7.68%	\$ 633,585,810	6.49%	\$ 663,137,202	6.37%	\$814,164,568	7.24%
Total - All real properties assessed by the Town (1)	\$8,464,491,112		\$9,237,887,980		\$9,766,765,025		\$10,416,786,877		\$11,239,536,718	

- (1) Assessed value includes only net secured real properties.
- (2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

**Town of Los Gatos
Property Tax Levies and Collections
Last Ten Fiscal Years**



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2008	\$ 6,901,935	\$ 8,072,176	\$ 14,974,111	\$ 7,594,588,066	\$ 1,081,483,541	\$ 8,676,071,607
2009	7,465,403	8,574,251	16,039,654	8,166,393,709	1,096,883,582	9,263,277,291
2010	7,608,137	9,022,863	16,630,999	8,317,387,662	1,134,135,499	9,451,523,161
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,249,873,303	10,712,769,705
2015	9,787,519	-	9,787,519	9,995,113,547	1,318,214,863	11,313,328,410
2016	10,388,424	-	10,388,424	10,634,839,902	1,395,509,489	12,030,349,391
2017	11,345,588	-	11,345,588	11,544,997,211	1,537,577,241	13,082,574,452

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

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

Schedule 9

Fiscal Year	Governmental Activities						
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
2008	\$ 890,000	\$ 9,610,000	\$ -	\$ 10,500,000	\$ 10,500,000	6.2%	348.03
2009	685,000	9,370,000	-	10,055,000	10,055,000	5.5%	329.70
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	19.4%	820.24
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72
2012	-	-	-	-	-	0.0% ¹⁾	0.00
2013	-	-	-	-	-	0.0%	0.00
2014	-	-	-	-	-	0.0%	0.00
2015	-	-	-	-	-	0.0%	0.00
2016	-	-	-	-	-	0.0%	0.00
2017	-	-	-	-	-	0.0%	0.00

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

**Town of Los Gatos
Direct and Overlapping Governmental Activities Debt
As of June 30, 2017**

Schedule 10

2016/17 Assessed Valuation:

\$11,544,997,211

DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable	(1)	Debt at June 30, 2016	Estimated Share of Direct and Overlapping Debt at June 30, 2017
Overlapping Tax & Assessment Debt				
Santa Clara County	2.756%		\$ 784,845,000	\$ 21,630,328
West Valley-Mission Community College District	9.535%		\$ 407,295,973	\$ 38,835,671
Campbell Union High School District	8.154%		\$ 215,895,000	\$ 17,604,078
Los Gatos-Saratoga Joint Union High School District	34.161%		\$ 114,990,000	\$ 39,281,734
Cambrian School District	0.265%		\$ 51,149,944	\$ 135,547
Campbell Union High School District	8.346%		\$ 181,299,080	\$ 15,131,221
Los Gatos Union School District	70.441%		\$ 89,255,000	\$ 62,872,115
Saratoga Union School District	0.035%		\$ 30,006,318	\$ 10,502
Union School District	20.885%		\$ 109,727,657	\$ 22,916,621
Midpeninsula Regional Open Space District	4.716%		\$ 44,225,000	\$ 2,085,651
Santa Clara Valley Water District Benefit Assessment District	2.756%		\$ 90,945,000	\$ 2,506,444
Total Overlapping Tax and Assessment Debt				\$ 223,009,912
Overlapping General Fund Debt				
Santa Clara County General Fund Obligations	2.756%		\$ 634,190,521	\$ 17,478,291
Santa Clara County Pension Obligations	2.756%		\$ 362,470,957	\$ 9,989,700
Santa Clara County Board of Education Certificates of Participation	2.756%		\$ 5,690,000	\$ 156,816
West Valley-Mission Community College District General Fund Obligations	9.617%		\$ 63,175,000	\$ 6,075,225
Campbell Union High School District General Fund Obligations	8.154%		\$ 15,165,000	\$ 1,236,554
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	34.161%		\$ 5,495,000	\$ 1,877,147
Campbell Union School District General Fund Obligations	8.346%		\$ 3,090,000	\$ 257,891
Saratoga Union School District Certificates of Participation	0.035%		\$ 4,260,000	\$ 1,491
Santa Clara County Vector Control District Certificates of Participation	2.756%		\$ 2,685,000	\$ 73,999
Midpeninsula Regional Open Space Park District General Fund Obligations	4.716%		\$ 112,143,611	\$ 5,288,693
Total Gross Overlapping General Fund Debt				\$ 42,435,807
Less: Santa Clara County Supported Obligations				\$ 10,869,760
Total Overlapping General Fund Debt				\$ 31,566,047
Overlapping Tax Increment Debt (Successor Agency)				
Town of Los Gatos Certificated of Participations				\$ 18,785,000
Total of Overlapping Tax Increment Debt				\$ 18,758,000
Total Direct Debt				\$0
Total Gross Overlapping Debt				\$ 284,230,719
Total Net Overlapping Debt				\$ 273,360,959
Gross Combined Total Debt				\$ 278,230,719 (2)
Net Combined Total Debt				\$ 273,360,959

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

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

Ratios to 2015/16 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.93%
 Total Direct Debt: 0.00%
 Gross Combined Total Debt: 2.46%
 Net Combined Total Debt: 2.37%

Ratios to Redevelopment Incremental Valuation (\$1,217,279,316):

Total Overlapping Tax Increment Debt: 1.54%

Source Data: California Municipal Statistics, Inc.

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

Schedule 11

Legal Debt Margin Calculation
 for Fiscal Year 2016/17

Assessed Value	\$ 10,375,010,557
Debt Limit	1,556,251,584
Debt Applicable to Limit:	-
Legal Debt Margin	<u>\$ 1,556,251,584</u>

	Fiscal Year									
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Debt Limit	\$ 1,019,970	\$ 1,102,766	\$ 1,185,727	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943	\$ 1,556,252
Debt Applicable to Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<u>\$ 1,019,970</u>	<u>\$ 1,102,766</u>	<u>\$ 1,185,727</u>	<u>\$ 1,204,551</u>	<u>\$ 1,195,035</u>	<u>\$ 1,216,131</u>	<u>\$ 1,263,138</u>	<u>\$ 1,379,254</u>	<u>\$ 1,444,943</u>	<u>\$ 1,556,252</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

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

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

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2008	30,170	\$ 1,781,780	\$ 59,058	44.86	5,870	6.0%
2009	30,497	1,701,153	55,781	45.35	6,006	11.8%
2010	30,802	1,787,070	58,018	45.09	6,100	11.3%
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.80	6,420	6.8%
2014	30,443	2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	2,286,087	72,861	46.30	6,646	3.5%
2017	31,314	2,281,569	72,861	46.50	6,631	3.8%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2016)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) California State Dept of Finance - county per capita at: labormarketinfo.edd.ca.gov
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

Principal Employers	2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	Emp.	Percentage of Total Town Employment																		
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	12.89%	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%	2,000	13.29%	2,000	13.52%	-	0.00%	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	-	0.00%	800	4.92%	700	4.26%	700	4.41%	700	4.86%	700	4.65%	700	4.73%	560	3.73%	560	3.53%	560	3.49%
Los Gatos Union School District	300	1.93%	300	1.85%	300	1.83%	300	1.89%	275	1.91%	275	1.83%	237	1.60%	273	1.82%	280	1.76%	274	1.71%
Los Gatos-Saratoga High School District	300	1.93%	300	1.85%	300	1.83%	300	1.89%	270	1.88%	270	1.79%	256	1.73%	157	1.05%	157	0.99%	370	2.30%
Netflix	280	1.80%	-	0.00%	280	1.70%	800	5.04%	800	5.56%	900	5.98%	825	5.58%	1,530	10.19%	1,976	12.45%	1,864	11.61%
Safeway	250	1.61%	200	1.23%	250	1.52%	250	1.57%	250	1.74%	250	1.66%	250	1.69%	314	2.09%	314	1.98%	314	1.95%
Alain Pinel Realtors	220	1.42%	-	0.00%	220	1.34%	220	1.39%	150	1.04%	150	1.00%	156	1.05%	156	1.04%	146	0.92%	148	0.92%
Verizon	200	1.29%	200	1.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.29%	200	1.23%	200	1.22%	200	1.26%	200	1.39%	200	1.33%	295	1.99%	440	2.93%	440	2.77%	468	2.91%
Town of Los Gatos	135	0.87%	189	1.16%	148	0.90%	138	0.87%	136	0.94%	138	0.92%	144	0.97%	157	1.05%	158	1.00%	160	1.00%
Whole Foods	130	0.84%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	179	1.19%	179	1.13%	179	1.11%
Vasona Creek Health Care Center	130	0.84%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	233	1.55%	233	1.47%	233	1.45%
Good Samaritan Regional Cancer Center	130	0.84%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	200	1.33%	200	1.26%	200	1.25%
Roku	-	-	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	487	3.07%	554	3.45%
Terraces of Los Gatos	-	-	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	228	1.44%	228	1.42%

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

Schedule 14

<u>Function/Program</u>	Full-time-Equivalent Employees as of June 30									
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
General Government	20.50	19.95	18.35	18.90	20.15	20.40	20.73	20.97	20.97	21.35
Police	61.00	61.00	60.00	59.50	60.50	58.00	57.50	60.00	59.00	59.00
Culture and Recreation	5.25	5.25	5.25	3.25	-	-	-	-	-	-
Economic Development	1.00	1.00	1.00	1.00	1.00	-	0.50	0.63	0.63	0.63
Library	10.35	10.35	10.35	8.60	8.60	8.60	10.30	10.80	11.00	12.25
Planning	18.80	18.80	17.80	15.00	16.00	17.50	17.50	19.50	19.00	19.26
Public Works	34.00	37.00	35.00	32.50	32.00	31.00	31.50	32.00	33.50	33.50
Total	150.90	153.35	147.75	138.75	138.25	135.50	137.53	143.90	144.10	145.98

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

**Town of Los Gatos
Operating Indicators
Last Ten Fiscal Years**

Schedule 15

FUNCTION/PROGRAM

	Fiscal Year					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
General government						
Building Permits Issued						
Residential Permits Issued	747	738	813	805	899	744
Residential Permits Value	66,072,341	75,227,889	87,307,822	76,896,111	85,000,754	53,625,891
Commercial Permits Issued	107	137	139	133	147	135
Commercial Permits Value	17,663,124	46,855,615	138,676,507	178,195,997	20,185,884	50,024,177
Publically Owned Permits Issued	-	-	-	-	-	-
Publically Owned Permits Value	-	-	-	-	-	-
Residential Parking Permits						
Number of Special Event Permits Issued	89	125	133	127	107	118
Number of Annual Permits Issued	1,223	1,320	1,376	1,570	1,363	1,251
City Clerk						
Number of Council Resolutions Passed	59	74	86	72	61	69
Number of Ordinances Passed	13	20	16	9	11	5
Number of Contracts Passed	227	220	196	222	283	240
General Services						
Number of Purchase Orders Issued	358	318	301	277	334	331
Police						
Physical Arrests	690	648	641	695	987	1,030
Parking Violations	12,938	11,991	14,421	13,321	13,975	12,863
Traffic Violations	2,908	3,333	4,747	4,633	5,400	4,634
DUI Arrests	89	86	62	48	58	60
Library						
Circulated e-audiobooks	3,388	4,774	2,414 *	5,867 *	7,761	10,006
Other Public Works						
Street Resurfacing/Overlay/Reconstruction (miles)	8.0	8.0	10.0	1.8	8.0	10.0
ADA Compliance: Curb Ramps	19	19	19	23	11	30
Traffic Circles	1	1	-	1	1	1
Street Poles	1,611	1,611	1,611	1,609	1,609	1,609
Planning and Development Department						
Building & Safety Inspections Performed	11,738	11,902	12,764	11,652	8,655	14,722
Redevelopment: Number of active projects	-	-	-	-	-	-

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

Source: Town of Los Gatos, Finance Department

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

Schedule 16

Function/Program	Fiscal Year									
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
-										
Police										
Number of Stations	1	1	2	2	2	2	2	2	2	2
Number of Patrol Units	15	15	14	14	14	14	14	14	14	14
Parking Enforcement Vehicles	3	3	2	2	2	2	2	2	2	2
Other Public Works										
Streets (miles)	112	112	112	112	112	112	112	112	112	112
Streetlights	2,190	2,190	2,112	2,115	2,116	2,116	2,109	1,609	1,609	1,609
Traffic Signals	28	28	28	28	29	29	29	29	30	30
Parks and Recreation										
Number of Parks	12	12	12	12	12	12	12	12	12	12
Number of Community Centers	1	1	1	1	1	1	1	1	1	1
Parking										
Number of Parking Garages	1	1	1	1	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126

Source: Town of Los Gatos, Finance Department

This page intentionally left blank

Other Independent Auditor's Reports

This page intentionally left blank



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Los Gatos, California's basic financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control Over Financial Reporting

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

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

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

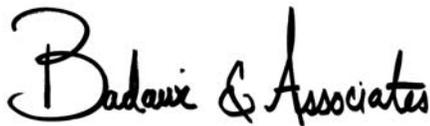
To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
Page 2

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates
Certified Public Accountants
Oakland, California
December 13, 2017

