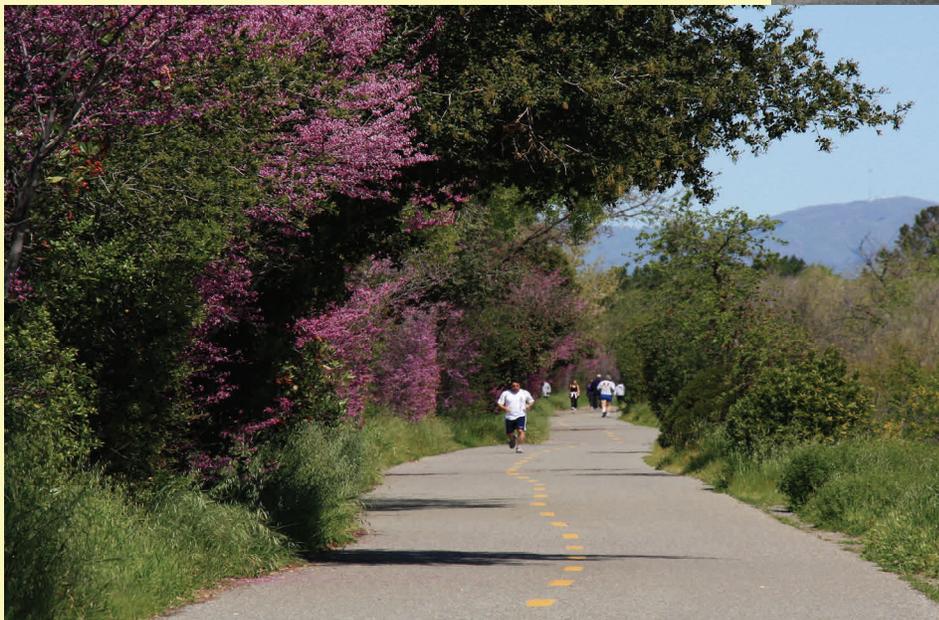




TOWN OF LOS GATOS

& REDEVELOPMENT AGENCY

CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**TOWN OF LOS GATOS
CALIFORNIA**

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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 29,854. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

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

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

Introductory Section

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

January 30, 2013

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, 2012. This report was prepared by management and the Finance staff in the Town Manager's Department, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2012, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

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

This Comprehensive Annual Financial Report is organized into three sections:

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

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

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

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as “Silicon Valley.” From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 14 square miles with a population of 29,854. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the Town of Los Gatos has been impacted by the effects of the national economic downturn. As a result of the recession and a change in the business model for one of the Town’s largest businesses, the Town has experienced significant reductions in sales tax revenues. The Town of Los Gatos also experienced a decrease in property tax revenues due to the dissolution of the Redevelopment Agency.

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

General Fund revenues (including operating transfer-ins) increased by 4% from the prior year. The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 29% of General Fund revenues in FY 2011/12. The FY 2011/12 \$9.9 million sales tax receipts were \$100,000 lower than the prior year's collection. This increase in sales tax is due to a business model change in Netflix, an internet streaming provider, which previously accounted for nearly 40% of all sales tax received by the Town.

Los Gatos property values remain largely stable, although the volume of housing sales has decreased in the past year. The turnover rate of Prop 13 housing units, which are often revalued at current market rates, is not offsetting the loss of property tax growth due to the slow housing market. Despite the slow economic recovery, the Town continues to strategically use its Economic Vitality program to ensure the fiscal health of the Town.

The Town continues to experience challenges due to the State of California's budget deficit. Since 1991, the State has diverted or taken portions of Town revenues such as property taxes to balance its fiscal equation. In FY 2008/09, the State took \$480,000 million in property tax from the Town Redevelopment Agency. While that action was found unconstitutional by the State Supreme Court, the State was successful in taking an additional \$2.7 million in redevelopment funds in FY 2009/10 and FY 2010/11. More recently, ABx1 26, which dissolved all Redevelopment Agencies in the state of California, was signed into law on June 29, 2011, by the Governor of the State of California, and was subsequently upheld by the California State Supreme Court on December 29, 2011. 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. This dissolution significantly impacted the Town due to reductions in administrative and program reimbursements previously paid by the Redevelopment Agency.

The Town has managed to limit the effects of State revenue reductions with pro-active strategic budgetary changes and expenditure reductions made on an organizational basis. Despite the reductions to various state sources of local government revenue, the Town has maintained high service levels due to the General Fund's strong fiscal health through FY 2011/12. The Town continues to diligently outreach to the community, the League of California Cities, and local legislators to prevent any future revenue losses.

MAJOR INITIATIVES

Despite the ongoing revenue challenges, FY 2011/12 was a year of high activity centering on the new Los Gatos Library capital project. The new 30,000 square foot library is an environmentally “green” building as well as offering adequate space for a wide range of library services. The conceptual design for the library was completed in 2009, the Environmental Impact report was approved by the Town Council in January 2010; the construction contract was awarded in May 2010, followed by the groundbreaking in June. Construction of the new library was completed in February 2012.

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$14 million in Town infrastructure and other capital asset improvements were made in FY 2011/12, including \$6 million for the new library building, \$3.1 million in bridge improvements, \$1.4 million for curb, gutter, sidewalk improvements, and retaining wall repairs, 1.2 million for Los Gatos Creekside Sports Park, \$450,000 for traffic signal improvements, and \$100,000 in park improvements. In addition, approximately \$1.5 million was invested in the Town’s streets and roads, including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety.

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received.

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

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

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

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

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

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

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

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Jen Callaway, Finance & Budget Manager, Krysten Lee, Accountant; Linda Isherwood, Accountant/Finance Analyst, Nicole Tram, Accounts Payable Technician, and Gitta Ungvari Administrative Analyst, for their efforts in preparing this report.

Respectfully submitted,



Greg Larson
Town Manager



Stephen D. Conway
Director of Finance & Administrative Services

**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2012**

TOWN COUNCIL

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

COUNCIL APPOINTEES

Town Manager	Greg Larson
Town Attorney	Judith Propp

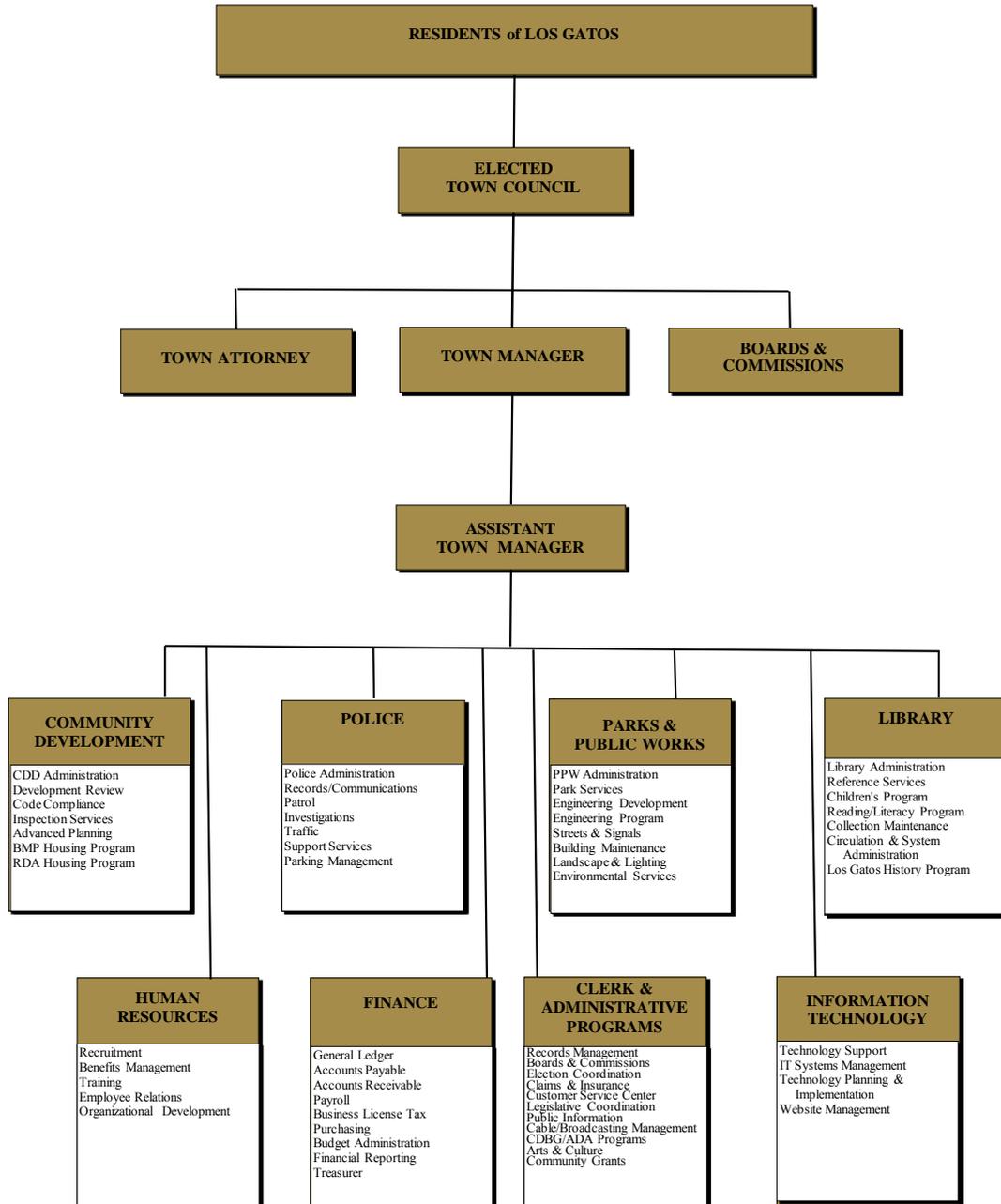
APPOINTED OFFICIALS

Assistant Town Manager	Pamela Jacobs
Deputy Town Manager	Regina Falkner
Chief of Police	Scott Seaman
Community Development Director	Wendie Rooney
Finance and Administrative Services Director	Stephen Conway
Human Resources Director	Rumi Portillo
Interim Library Director	Linda Dydo
Parks and Public Works Director	Todd Capurso



Town of Los Gatos

Organizational Structure



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, 2011

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



Christopher P. Movill

President

Jeffrey R. Emer

Executive Director

Financial Section



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as a part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2013 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As explained further in **Note 12** to the basic financial statements, the California State Legislature has enacted legislation requiring the dissolution of redevelopment agencies in the State of California effective February 1, 2012. As a result of the dissolution, the Town has closed its Redevelopment Agency funds and moved related assets, liabilities and resulting operations into a newly created Successor Agency private purpose trust fund. The dissolution resulted in an extraordinary loss of \$5,038,620 in the governmental fund statements and an extraordinary gain of \$11,864,453 in the government-wide statement of activities. In addition, an amount due to other governments of \$13,246,779 was reported in the Successor Agency trust fund, as of June 30, 2012, reflecting obligations that resulted from the dissolution.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary schedules included in the supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and budgetary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

C & A LLP

January 22, 2013
San Jose, California

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, 2012. 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 2011/12 by \$132,692,897 (net assets). Of this amount, \$37,192,210 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's Net Assets increased by \$16,455,199 million due primarily to the extraordinary gain on the dissolution of the former Redevelopment agency, pursuant to the enactment of California Assembly Bill (AB) 1X26 that dissolved all Redevelopment Agencies in the State of California.
- Total fund balances for governmental funds at year end were \$36,676,312, a decrease of \$8,591,017 (19%) from the prior year. The decrease is mainly the result of the dissolution of the former Redevelopment Agency's fund balances, in accordance with AB 1X26.
- At the end of FY 2011/12, fund balance for the General Fund was \$26,012,295, approximately 82% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets increased by \$624,345 as a result of approximately \$8.2 million, net of construction in progress, in capital improvements made and approximately \$7.6 million in capital assets removed as a result of the RDA dissolution.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

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

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Town of Los Gatos Redevelopment Agency (the Agency) for which the Town was financially accountable. In accordance with Assembly Bill 1X 26 (AB 1X26) which provides for the dissolution of all redevelopment agencies in the State of California, the Town of Los Gatos agreed to serve as the successor agency and thereby to hold the assets until they were distributed to other units of state and local government. In accordance with AB 1X26, the Town of Los Gatos Redevelopment Agency dissolved and ceased to operate as a legal entity on February 1, 2012.

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

Fund financial statements

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

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

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

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

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

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

Notes to basic financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 29-59 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$132.7 million at the end of the current fiscal year.

Town of Los Gatos		
Net Assets		
Governmental		
Activities		
	2012	2011
Current and other assets	\$ 64,236,189	\$ 91,845,942
Capital assets	89,056,388	88,432,043
Total assets	153,292,577	180,277,985
Current liabilities	15,050,917	33,519,022
Long-term liabilities outstanding	5,548,763	30,521,265
Total liabilities	\$ 20,599,680	\$ 64,040,287
Net assets:		
Investment in capital assets, net of related debt	\$ 90,333,451	\$ 72,567,355
Restricted	5,167,236	14,764,334
Unrestricted	37,192,210	2,890,009
Total net assets	\$ 132,692,897	\$ 116,237,698

Capital assets represent approximately 58% of the Town's total assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, *Investment in Capital Assets, Net of Related Debt* increased by approximately \$17.7 million as a result of approximately \$8.2 million, net of construction in progress, in capital improvements made and approximately \$7.6 million in capital assets removed as a result of the RDA dissolution.

An additional portion of the Town's net assets (3.9%) represents resources that are subject to external restrictions on how they may be used. The balance of *Unrestricted Net Assets* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *Unrestricted Net Assets* represent 28% of the Town's net assets at year end.

Governmental activities

	Governmental Activities	
	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 8,292,298	\$ 7,491,282
Operating grants and contributions	1,030,369	1,055,005
Capital grants and contributions	641,811	2,375,759
General revenues:		
Property taxes	14,088,866	18,226,001
Sales taxes	9,889,100	9,971,409
Other taxes	3,698,753	2,906,264
Motor Vehicle In Lieu	15,238	139,814
Investment earnings	331,420	760,905
Gain of Sale of Property	-	(870,127)
Other	2,275,160	41,943
Extraordinary Gain (Loss) on dissolution of RDA	11,864,453	
Total revenues	\$ 52,127,468	\$ 42,098,255
Expenses:		
Police Department	\$ 14,124,798	\$ 13,495,885
Parks and Public Works	7,827,332	7,155,905
General government	6,145,143	5,180,153
Community Development	3,434,551	3,099,269
Library Services	1,938,577	1,892,805
Redevelopment	919,821	16,794,022
Interest and fees	1,123,842	1,278,381
Community Services	-	666,015
Sanitation	158,205	342,893
Total expenses	\$ 35,672,269	\$ 49,905,328
Increase in net assets	16,455,199	(7,807,073)
Net assets, beginning	116,237,698	124,044,771
Prior period adjustments	-	-
Net assets, ending	\$ 132,692,897	\$ 116,237,698

As shown in the schedule above, governmental activities for the year increased the Town's Net Assets by \$16,455,199. Key elements of the increase in net assets are as follows:

- Property Tax revenues collected for the Town and the Redevelopment Agency accounted for 32% of total Town revenues. Property tax revenues for Town activities fell by \$4.1 million or 23%, from FY 10/11 due primarily to the dissolution of the redevelopment agency. Under AB 1X26, the former Redevelopment Agency did not receive its usual second-half-of-the-fiscal-year infusion of property tax increment revenue from the County of Santa Clara. Instead, this revenue was diverted to a new Real Property Tax Trust Fund administered by the County Auditor-Controller, out of which the Town, as

Successor Agency to the Town of Los Gatos Redevelopment Agency, paid enforceable obligations with the excess distributed to underlying taxing entities.

- Sales Tax revenue of \$9.9 million accounted for 22% of Town total revenues for the year. The 1% decrease of approximately \$82,309 from the prior year collections is due to the a business model change in Netflix, an internet streaming provider, which previously accounted for nearly 40% of all sales tax received by the Town.
- Other Taxes, Other Revenues, and Motor Vehicle in Lieu Taxes of \$3,713,991 accounted for 8.3% of total revenues, increasing by 20% from the prior year's amount of \$3,088,021 because of the of the increased Transient Occupancy and Franchise tax collected.
- Investment Earnings of \$331,420, net of amortized premiums, accounted for 0.7% of total revenues decreased by 56% from the prior year. This decrease due to a declining interest rate environment and reduced cash balances from prior years as a result of significant capital expenditure spending in the past fiscal year.
- Total expenditures decreased approximately \$18 million or 27% from the prior year. This decrease was primarily the result of the dissolution of the former Redevelopment Agency and its related capital project activity.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of FY 2011/12, the Town's governmental funds reported combined ending fund balances of \$36,676,312, a decrease of \$8,591,017 in comparison with the prior year. This decrease was primarily due to the dissolution of the former redevelopment agency.

Approximately 86% or \$31,509,076 of the total amount of governmental fund balances of \$36,676,312 is assigned or unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is restricted and is not available for new spending because it has already been restricted to (1) provide for appropriated capital projects (\$5,037,319); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$129,917).

General Fund - The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the General Fund net fund balance increased by 1%

from prior year balances to \$26,012,295 primarily as a result of an increase in revenues. The largest increase occurred in Transient Occupancy Taxes and Franchise Fee collections. General Fund expenditures (excluding transfers-out) increased by 6% from the prior fiscal year primarily due to a previously bargained increase for Public Safety Officers and benefit cost payments related to the Town's pension and post-retirement medical plans for both safety and non-safety employees. Additionally, the General Fund absorbed administrative and other costs effective February 1, 2012 from the former Redevelopment Agency.

Other Major Funds

General Fund Appropriated Reserve (GFAR) Capital Projects Fund. The GFAR fund is used as the primary capital projects fund for the Town and is used for the acquisition and construction of major capital projects in the Town. Fund balances decreased to \$6,666,737 primarily due to capital spending made on the new library building during the fiscal year.

Certificates of Participation (COP) RDA Debt Service Fund. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

Redevelopment Agency Low & Moderate Housing Capital Projects Fund. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

Other Non-Major Other Governmental Funds. These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds decreased by \$658,776.

Proprietary funds

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

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

The Equipment Replacement Fund charges replacement costs and the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year end for both funds was \$39,510 and \$82,893 respectively versus \$356,669 and \$10,287 in the prior year. The increase in operating income in the Vehicle Maintenance Fund from the prior year is attributable to the contracting out maintenance services to

reduce General Fund operating expenses. The decrease in Equipment Replacement Fund is attributable to the cyclical nature of fleet purchases in accordance with the Town’s fleet replacement schedule.

The Building Maintenance, Stores, and Management Information Systems funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail and office inventory and duplication charges, and management information services. Net operating income (loss) before transfers at year end was \$140,786, (\$39,075) and \$207,843 respectively. Revenues exceeded expenditures in the Building Maintenance Fund due to decreased heating, ventilation and air conditioning maintenance and repair costs experienced in the prior year. The office store expenditures increased because of the additional copiers added to the maintenance lease for the New Library building during FY 2011/12. Management information systems also experienced savings on anticipated repairs and replacements.

The Worker’s Compensation and Self Insurance Fund charge premiums based on exposure levels by department for liability, property, Worker’s Compensation and Self Insurance costs. Net operating income before transfers at year end was (\$509,246) and (\$470,928) respectively, versus 84,509 and (\$12,567) in the prior year. The decrease of Operating income for the year in the Worker’s Compensation and Self Insurance funds reflects the adverse experience of loss claims in the current year from the prior year in Worker’s Compensation and general liability claim payments and settlements.

GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:

Budget Adjustments

Comparing the FY 2011/12 original budget (or adopted) General Fund Expenditures of \$32,971,938 (excluding budgeted transfers-out), the final budget amount of \$33,130,615 shows a net increase of \$158,677. Additions to the original budget included approved additions of \$158,677 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carryforwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$32,971,938	\$-0-	\$-0-	\$158,677	\$33,130,615

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

- \$43,000 decrease from the Manager’s Contingency to the Pageant Ground Access Project for the final design phase of the Pageant Grounds.
- \$103,975 increase in Traffic Safety Grant Money from the State of California.
- \$62,500 increase in Next Door Solutions to Domestic Violence for PD partnership to provide assistance to domestic violence victims.

- \$20,052 increase in grant money from the Santa Clara Public Health Department for Obesity Prevention to aid the Town in expanding obesity prevention efforts.
- \$15,150 increase for the purchase of 35 portable radios partially paid by the State of California EMPG grant.

Comparing the FY 2011/12 final amended budget to the actual result shows \$4.4 million in operational savings due to various cost saving methods. These steps included selected hiring freezes, strategic expenditure slowdowns, and departmental cost saving efficiencies among other strategies.

Capital Assets

As of June 30, 2012, the Town’s investment in capital assets for its governmental activity is recorded at \$89,056,388 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2011/12 the Town’s \$14 million investment in capital assets for the current year represented approximately 16% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$6 million for the new library building
- \$3.1 million for bridge improvements;
- \$1.5 million for street improvements;
- \$1.4 million for curb, gutter and sidewalk improvements and retaining wall;
- \$1.2 million Los Gatos Creekside Sports Park;
- \$0.45 million for traffic signal improvements; and
- \$0.1 million for various park improvements.

June 30, 2012	
Town of Los Gatos	
Capital Assets (net of accumulated depreciation)	
	Governmental Activities
Land	\$ 20,329,684
Construction in Progress	3,360,517
Buildings	23,713,029
Equipment	2,489,383
Infrastructure	39,163,775
	<u>\$ 89,056,388</u>

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

Debt Administration

As of June 30, 2012, the Town had no outstanding long-term debt. As a result of the dissolution of the redevelopment agency, the Town transferred \$24,422,785 in outstanding debt to the Successor Agency’s Private Purpose Trust Fund.

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 2012/13 budget, the Town Council and management considered the following factors:

- The Town anticipates a decline in sales tax growth for FY 2012/13. Sales tax estimates for FY 2012/13 were budgeted reflecting a 21% decline from the prior year's adopted sales tax of approximately \$9.4 million dollars due to a business model change in Netflix, an internet streaming provider, which previously accounted nearly 40% of all sales tax received by the Town. With sales tax representing approximately 24% of the Town's General Fund revenues, any fluctuation in local sales tax collections will significantly impact the Town.
- General property tax collections represent approximately 24.5% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues and anticipated to experience moderate growth rate of 3% to 4% based on data from the Santa Clara County Tax Assessor's Office. Los Gatos is one of the few cities in Santa Clara County that did not encounter significant loss of assessed valuation due to the recent recession and expects positive growth for FY 2012/13. The growth in property tax is largely attributable to the increased assessed valuation that occurs upon the turnover of housing stock in the Town.
- The Town's investment portfolio experienced a decline in its overall weighted average annual yield, lowering from 1.46% at June 30, 2011 to 0.97% at June 30, 2012. As a result of declining interest rates for FY 2011/12, and reduced cash balances due to significant capital expenditures, investment earnings are expected to be lower than the prior year. Budgeted estimates have been reduced to \$421,656 from the adjusted budget estimate to \$979,849 from the prior year.
- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2012/13 as personal and business related travel is gaining strength. Given the increase in travel activity, the FY 2012/13 TOT revenues were budgeted at \$1,000,000. Reflecting 7% increase from the FY 2011/12 adopted budget.

Requests for Information

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

Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

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

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

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

Both of these statements include the financial activities of the Town and the Redevelopment Agency of the Town of Los Gatos, which is a legally separate, but a component unit of the Town because it is controlled by the Town, which is financially accountable for its activities. Since the Redevelopment Agency was dissolved as of February 1, 2012, there was no activity in these statements during the last five months of the year and no ending balances to report at June 30, 2012.

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

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 58,953,574
Restricted cash and investments (Note 2)	1,314,179
Receivables:	
Accounts	1,320,164
Intergovernmental	1,471,857
Materials, supplies and deposits	40,631
Long term notes receivables (Note 3)	1,135,784
Capital Assets (Note 5):	
Nondepreciable	23,690,201
Depreciable, net of accumulated depreciation	65,366,187
Total Assets	\$ 153,292,577
LIABILITIES	
Accounts payable	\$ 1,999,607
Accrued payroll and benefits	3,457,118
Due to other governments	6,786
Unearned Revenue	5,365,991
Deposits	3,104,374
Claims payable (Note 11)	1,117,041
Long-term liabilities:	
Due within one year	
Compensated absences (Note 1)	1,415,240
Due in more than one year	
Post retirement benefits (Note 10)	2,881,907
Compensated absences (Note 1)	1,251,616
Total Liabilities	\$ 20,599,680
NET ASSETS (Note 1)	
Invested in capital assets, net of related debt	\$ 90,333,451
Restricted for:	
Capital projects	5,037,319
Lighting and landscape repairs and maintenance	129,917
Total Restricted Net Assets	5,167,236
Unrestricted	37,192,210
Total Net Assets	\$ 132,692,897

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

**TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 6,145,143	\$ 1,108,424	\$ 6,453	\$ -	\$ (5,030,266)
Public safety	14,124,798	2,324,397	29,980	-	(11,770,421)
Parks and public works	7,827,332	1,215,382	993,827	641,811	(4,976,312)
Community development	3,434,551	3,448,433	-	-	13,882
Redevelopment	919,821	-	-	-	(919,821)
Library services	1,938,577	37,662	109	-	(1,900,806)
Community services	-	23,000	-	-	23,000
Sanitation	158,205	135,000	-	-	(23,205)
Interest and fees	1,123,842	-	-	-	(1,123,842)
Total Governmental Activities	\$ 35,672,269	\$ 8,292,298	\$ 1,030,369	\$ 641,811	(25,707,791)
General revenues and special items:					
Taxes:					
Property taxes					14,088,866
Sales taxes					9,889,100
Franchise taxes					1,931,027
Other taxes					1,767,726
Motor vehicle in lieu					15,238
Investment earnings					331,420
Miscellaneous					2,275,160
Special items:					
Extraordinary gain (loss) on dissolution of Redevelopment Agency					11,864,453
Total general revenues and special items					42,162,990
Change in Net Assets					16,455,199
Net Assets - Beginning					116,237,698
Net Assets - Ending					<u>\$ 132,692,897</u>

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

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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, 2012. Individual non-major funds can be found in the supplemental section.

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

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

Certificates of Participation Fund is used to account for the Certificates of Participation issued to finance several capital improvement projects throughout the Town. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

Redevelopment Agency Affordable Housing Fund is used for the implementation of the Agency's required Affordable Housing Set-Aside Program obligations. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 32,327,101	\$ 10,271,123	\$ 3,891,537	\$ 46,489,761
Restricted Cash & Investments	-	1,277,063	37,116	1,314,179
Receivables:				
Accounts	1,105,239	-	202,500	1,307,739
Intergovernmental	1,267,848	-	204,009	1,471,857
Due from Other Funds	124,142	-	-	124,142
Total Assets	<u>\$ 34,824,330</u>	<u>\$ 11,548,186</u>	<u>\$ 4,335,162</u>	<u>\$ 50,707,678</u>
LIABILITIES				
Accounts Payable	\$ 388,680	\$ 1,458,790	\$ 2,198	\$ 1,849,668
Accrued Payroll and Benefits	3,436,632	-	1,427	3,438,059
Due to other governments	5,270	1,490	-	6,760
Deferred revenue	1,734,707	3,421,169	210,115	5,365,991
Deposits	3,104,374	-	-	3,104,374
Due to Other Funds	-	-	124,142	124,142
Compensated Absences	142,372	-	-	142,372
Total Liabilities	<u>8,812,035</u>	<u>4,881,449</u>	<u>337,882</u>	<u>14,031,366</u>
FUND BALANCE (Note 8)				
Restricted for:				
Capital Outlay	-	1,277,063	3,760,256	5,037,319
Repairs and Maintenance	-	-	129,917	129,917
Assigned to:				
Vasona Land Sale	1,645,329	-	-	1,645,329
Open Space	562,000	-	-	562,000
Post Retirement Medical	400,000	-	-	400,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Productivity Enhancements	100,000	-	-	100,000
Economic Uncertainty	4,178,192	-	-	4,178,192
Capital Projects	7,755,004	3,907,464	-	11,662,468
Comcast PEG	-	22,000	-	22,000
Budget Stabilization	6,721,808	-	-	6,721,808
Special Studies	490,000	-	-	490,000
Unassigned	4,019,409	-	107,107	4,126,516
Total Fund Balances	<u>26,012,295</u>	<u>6,666,737</u>	<u>3,997,280</u>	<u>36,676,312</u>
Total Liabilities and Fund Balance	<u>\$ 34,824,330</u>	<u>\$ 11,548,186</u>	<u>\$ 4,335,162</u>	<u>\$ 50,707,678</u>

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

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET
ASSETS – GOVERNMENTAL ACTIVITIES
JUNE 30, 2012**

Fund Balance - Total Governmental Funds		\$ 36,676,312
Amounts reported for Governmental Activities in the Statement of Net Assets 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.		89,056,388
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS		
Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Assets.		11,230,804
LONG-TERM LIABILITIES		
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.		
Post Retirement Benefits	(2,881,907)	
Compensated absences	<u>(2,524,484)</u>	(5,406,391)
LONG-TERM NOTES RECEIVABLES		
In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue.		<u>1,135,784</u>
Net Assets - Governmental Activities		<u><u>\$ 132,692,897</u></u>

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

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Low & Moderate Housing Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 9,864,539	\$ -	\$ -	\$ -	\$ 37,760	\$ 9,902,299
Property Tax Increments	-	-	4,510,833	-	-	4,510,833
Less: Election Amount	-	-	(324,266)	-	-	(324,266)
Sales Taxes	9,889,100	-	-	-	-	9,889,100
Other Taxes	3,136,686	277,780	-	-	284,287	3,698,753
Licenses & Permits	3,242,348	-	-	-	-	3,242,348
Intergovernmental	798,258	-	-	-	871,471	1,669,729
Charges for Services	3,879,826	1,535,845	-	-	135,000	5,550,671
Fines and Forfeitures	809,461	-	-	-	329	809,790
Interest	259,146	-	(22,715)	2,166	52,887	291,484
Use of Property	38,974	-	-	-	-	38,974
Other	2,310,981	1,183	1,989,852	1,100,000	10,312	5,412,328
Total Revenues	34,229,319	1,814,808	6,153,704	1,102,166	1,392,046	44,692,043
EXPENDITURES						
Current:						
General Government	8,046,701	-	-	-	93	8,046,794
Public Safety	13,392,953	-	-	-	-	13,392,953
Parks and Public Works	5,424,955	-	-	-	16,005	5,440,960
Community Development	3,226,195	-	-	-	-	3,226,195
Library Services	1,805,479	-	-	-	-	1,805,479
Sanitation and Other	-	-	-	-	116,607	116,607
Redevelopment	-	-	1,995,431	741,298	545,426	3,282,155
Capital Outlay	-	10,274,345	-	-	655,146	10,929,491
Debt service:						
Principal	-	-	934,167	-	-	934,167
Interest & Fees	-	-	1,143,185	-	-	1,143,185
Total Expenditures	31,896,283	10,274,345	4,072,783	741,298	1,333,277	48,317,986
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,333,036	(8,459,537)	2,080,921	360,868	58,769	(3,625,943)
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4)	231,723	1,923,428	-	837,313	742,976	3,735,440
Transfers (out) (Note 4)	(1,849,882)	(213,779)	(1,487,313)	-	(110,920)	(3,661,894)
Total Other Financing Sources (Uses)	(1,618,159)	1,709,649	(1,487,313)	837,313	632,056	73,546
Extraordinary Gain (Loss) - RDA Dissolution	(442,919)	-	(2,047,919)	(1,198,181)	(1,349,601)	(5,038,620)
NET CHANGES IN FUND BALANCES	271,958	(6,749,888)	(1,454,311)	-	(658,776)	(8,591,017)
BEGINNING FUND BALANCES	25,740,337	13,416,625	1,454,311	-	4,656,056	45,267,329
ENDING FUND BALANCES	\$ 26,012,295	\$ 6,666,737	\$ -	\$ -	\$ 3,997,280	\$ 36,676,312

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

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (8,731,092)

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

EXTRAORDINARY GAIN (LOSS) FROM DISSOLUTION OF REDEVELOPMENT AGENCY

The extraordinary gain (loss) reported in the governmental funds from the dissolution of the RDA is different from the reported in the government-wide statements as follows:

Capital assets reported in the government-wide financial statements -		
Increase (decrease) to net assets	(7,558,545)	
Loans receivable reported in the government-wide financial statements -		
Increase (decrease) to net assets	(493,777)	
Long-term liabilities reported in the government-wide financial statements -		
Increase (decrease) to net assets:		
Certificates of participation		24,523,618
Interest payable		431,777

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)	\$ 11,266,014	
Current Year Depreciation	<u>(3,083,124)</u>	8,182,890

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Certificates of participation	934,167
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Premiums from the issuance of long-term debt are amortized as interest income in the statement of activities over the life of the debt, but recorded as revenue at the time of issuance in the governmental funds statement of revenues, expenditures and changes in fund balances.

37,655

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:

Interest payable	19,343
Compensated absences	(81,386)
Post retirement benefits	(330,044)

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.

(621,763)

LONG TERM NOTES RECEIVABLES AND ASSOCIATED DEFERRED REVENUE

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

2,281

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES

\$ 16,315,124

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

**TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 9,799,400	\$ 9,689,400	\$ 9,864,539	\$ 175,139
Sales Taxes	9,400,000	8,600,000	9,889,100	1,289,100
Other Taxes	2,653,850	2,924,610	3,136,686	212,076
Licenses & Permits	2,842,050	2,842,050	3,242,348	400,298
Intergovernmental	739,893	961,950	798,258	(163,692)
Charges for Services	3,641,736	3,704,236	3,879,826	175,590
Fines and Forfeitures	671,596	671,596	809,461	137,865
Interest	717,981	603,981	259,146	(344,835)
Use of Property	37,223	37,223	38,974	1,751
Other	2,504,234	2,507,079	2,310,981	(196,098)
Total Revenues	33,007,963	32,542,125	34,229,319	1,687,194
EXPENDITURES				
Current:				
General Government:				
Town Council	207,655	207,655	188,334	19,321
Town Attorney	223,864	223,864	215,794	8,070
Administrative Services	2,827,498	2,847,550	2,641,570	205,980
Non-Departmental	5,537,931	5,474,781	5,001,003	473,778
Total General Government	8,796,948	8,753,850	8,046,701	707,149
Public Safety	13,435,045	13,631,820	13,392,953	238,867
Community Development	3,173,694	3,173,694	3,226,195	(52,501)
Parks & Public Works	5,662,894	5,662,894	5,424,955	237,939
Library Services	1,903,357	1,908,357	1,805,479	102,878
Total Expenditures	32,971,938	33,130,615	31,896,283	1,234,332
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	36,025	(588,490)	2,333,036	2,921,526
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	416,920	416,920	231,723	(185,197)
Operating Transfers Out	(3,350,000)	(3,350,000)	(1,849,882)	1,500,118
Total Other Financing Sources (Uses)	(2,933,080)	(2,933,080)	(1,618,159)	1,314,921
Extraordinary Gain (Loss) - RDA Dissolution	-	-	(442,919)	(442,919)
NET CHANGES IN FUND BALANCES	\$ (2,897,055)	\$ (3,521,570)	271,958	\$ 3,793,528
BEGINNING FUND BALANCE			25,740,337	
ENDING FUND BALANCE			\$ 26,012,295	

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, 2012**

**PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS**

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

TOWN OF LOS GATOS, CALIFORNIA
PROPRIETARY FUNDS -
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities Internal Service Funds
ASSETS	
Current Assets:	
Cash & investments (Note 2)	\$ 12,463,813
Accounts Receivable	12,425
Materials, supplies, and deposits	40,631
Total current assets	<u>12,516,869</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Note 5)	<u>20,683</u>
Total noncurrent assets	<u>20,683</u>
 Total Assets	 <u><u>\$ 12,537,552</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 149,939
Accrued payroll and benefits	19,059
Due to other governments	26
Total current liabilities	<u>169,024</u>
Noncurrent liabilities:	
Claims payable (Note 11)	<u>1,117,041</u>
Total noncurrent liabilities	<u>1,117,041</u>
 Total Liabilities	 <u><u>\$ 1,286,065</u></u>
NET ASSETS (Note 1)	
Invested in capital assets, net of related debt	\$ 20,683
Unrestricted	<u>11,230,804</u>
 Total Net Assets	 <u><u>\$ 11,251,487</u></u>

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

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 4,062,521
Interest	30
Use of money and property	135,314
Other	447,347
	4,645,212
OPERATING EXPENSES	
Salaries and related expenses	1,075,759
Insurance expenses	1,078,288
Depreciation	9,542
Services and Supplies	3,029,840
	5,193,429
Operating Income	(548,217)
Transfers in (Note 4)	-
Transfers out (Note 4)	(73,546)
	(73,546)
Net transfers	(73,546)
Change in Net Assets	(621,763)
BEGINNING NET ASSETS	11,873,250
ENDING NET ASSETS	\$ 11,251,487

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

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,634,501
Payments to suppliers	(2,086,607)
Payments to employees	(1,089,249)
Claims paid	(1,564,032)
Net cash provided (used) by operating activities	<u>(105,387)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	-
Transfers Out	(73,546)
Net cash provided (used) by noncapital financing activities	<u>(73,546)</u>
Net Increase(Decrease) in Cash and Investments	(178,933)
Cash and investments - beginning of year	<u>12,642,746</u>
Cash and investments - end of year	<u><u>\$ 12,463,813</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ (548,217)
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	9,542
Change in assets and liabilities:	
Receivables, net	(10,711)
Other assets	1,876
Accounts payable and other accrued expenses	(131,594)
Other accrued expenses	<u>573,717</u>
Cash Flows From Operating Activities	<u><u>\$ (105,387)</u></u>

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

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FIDUCIARY FUNDS

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

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

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

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

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

TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	PRIVATE PURPOSE TRUST FUNDS			AGENCY FUND
	Library	RDA Successor Agency	Total Private Purpose Trust Funds	Parking Improvement District #88
ASSETS				
Cash and investments (Note 2)	\$ 874,259	\$ 15,525,289	\$ 16,399,548	\$ 26,730
Restricted cash and investments (Note 2)	-	1,186,876	1,186,876	284,992
Accounts receivable	-	31,169	31,169	-
Intergovernmental receivable	-	-	-	92,346
Loans receivable (Note 3)	-	493,777	493,777	-
Capital assets (Note 5):				
Nondepreciable	-	5,321,307	5,321,307	-
Depreciable, net of accumulated depreciation	-	2,237,238	2,237,238	-
Total Assets	874,259	24,795,656	25,669,915	\$ 404,068
LIABILITIES				
Accounts payable	15,000	99,000	114,000	\$ -
Due to other governments (Note 13)	30	13,246,779	13,246,809	404,068
Interest payable	-	431,777	431,777	-
Long-term debt (Note 6):				
Due within one year	-	925,000	925,000	-
Due in more than one year	-	23,497,785	23,497,785	-
Total Liabilities	15,030	38,200,341	38,215,371	\$ 404,068
NET ASSETS				
Held in trust	859,229	(13,404,685)	(12,545,456)	
Total Net Assets	\$ 859,229	\$ (13,404,685)	\$ (12,545,456)	

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

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	PRIVATE PURPOSE TRUST FUNDS		
	Library	RDA Successor Agency	Total
ADDITIONS			
Property taxes	\$ -	\$ -	\$ -
Investment earnings	9,686	(6,641)	3,045
Gifts, bequests and endowments	26,065	-	26,065
Repayment of Town obligations	-	11,820,314	11,820,314
Other	1,177	105,000	106,177
Total Additions	36,928	11,918,673	11,955,601
DEDUCTIONS			
Program expenses of former RDA	-	207,960	207,960
Payments to other governments	-	13,246,779	13,246,779
Interest and fiscal agency expenses of RDA	-	4,166	4,166
Library services	184,444	-	184,444
Total Deductions	184,444	13,458,905	13,643,349
Extraordinary Gain (Loss) - RDA Dissolution	-	(11,864,453)	(11,864,453)
CHANGE IN NET ASSETS	(147,516)	(13,404,685)	(13,552,201)
NET ASSETS - BEGINNING OF YEAR	1,006,745	-	1,006,745
NET ASSETS - END OF YEAR	\$ 859,229	\$ (13,404,685)	\$ (12,545,456)

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

Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the “Town”) operates under a Council-Manager form of government and provides the following services; public safety (including police, emergency management and fire services), parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and redevelopment. Redevelopment services were provided primary through the Redevelopment Agency of the Town which has been dissolved as of February 1, 2012. Please see **Note 12** for additional information.

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, 2012 was 29,854.

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

B. Description of Blended Component Units

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

The Town of Los Gatos Redevelopment Agency (the “Agency”) was established as a result of the Loma Prieta Earthquake in 1989 and the need to rebuild existing infrastructure. The Redevelopment Agency area encompasses approximately 440 acres in and around Downtown Los Gatos, which includes retail and residential areas, lodging, schools, and main traffic thoroughfares. Projects such as street and utility reconstruction, parking, streetscape and civic improvements were called out in the Plan. Through February 1, 2012, the Agency was governed by the Town Council in a separate capacity from the Town as members of the Redevelopment Agency Board. Effective February 1, 2012, due to AB 1x 26, the dissolution of Redevelopment Agencies throughout CA, the activities of the dissolved Redevelopment Agency were recorded in the Successor Agency fiduciary fund.

C. Description of Joint Ventures and Public Entity Risk Pool

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

D. Basis of Presentation

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

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

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

Certificates of Participation Fund is used to account for the Certificates of Participation issued to finance several capital improvement projects throughout the Town. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

Redevelopment Agency Affordable Housing Fund is used for the implementation of the Agency's required Affordable Housing Set-Aside Program obligations. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

The Town also reports the following fund types:

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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

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

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

F. Basis of Accounting

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

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

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

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

Advances between funds and due from/to other funds are offset by a 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 are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 Assets.

The changes of the compensated absences were as follows:

Beginning Balance	2,473,963
Additions	1,584,561
Payments	<u>(1,391,668)</u>
Ending Balance	<u>\$ 2,666,856</u>
Current Portion	<u>\$ 1,415,240</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 and Deferred Revenue - In the government-wide financial statements, unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions for which unearned revenue is recorded are unearned grant revenues and prepayments from customers.

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In the fund financial statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Town records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest accrued on interfund advances, long-term assessments and long-term loans receivables.

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Net Assets - Net Assets are the excess of all the Town's assets over all its liabilities, regardless of each fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

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

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

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

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.

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

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

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

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

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

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

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

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

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

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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 - Expenditures exceeded budget by \$388,207 in the Town's Redevelopment Agency Housing Set Aside Fund dues unanticipated redevelopment costs associated with the dissolution of the RDA. No other general fund or special revenue funds have expenditures in excess of budget for the year ended June 30, 2012.

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

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

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G. Newly Implemented Accounting Pronouncements

Summary of Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 5 (Issued 06/11). The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement were implemented as of June 30, 2012, and did **not** have a significant impact on the District's financial statements.

H. Upcoming Accounting and Reporting Changes

Summary of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (Issued 12/10). The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the District's financial statements.

Summary of Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Issued 06/11). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local*

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Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the District's financial statements.

Summary of Statement No. 65 Items Previously Reported as Assets and Liabilities (Issued 03/12). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The implementation of this standard will **not** have a significant impact on the District's financial statements.

Summary of Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 (Issued 06/12). This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the District's financial

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statements from the implementation of this standard is pending as of the issuance date of this report.

NOTE 2 - CASH AND INVESTMENTS

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

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

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

The bank balance of the Town's cash deposits was \$14,563,155 as of June 30, 2012. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to \$250,000 for each bank, except for non-interest bearing transaction accounts at institutions participating in FDIC's Temporary Liquidity Guarantee Program, which are provided with unlimited deposit insurance coverage. As of June 30, 2012, the Town's cash balances were fully insured by FDIC or were collateralized as discussed above.

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

The Town invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2012, LAIF had approximately \$63 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The Town's investments with LAIF at June 30, 2012 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows:

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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.

As of June 30, 2012, the Town had \$14,108,187 invested in LAIF, which had invested 4.73% of the pool investments funds in Structured Notes and Asset-Backed Securities. The Town valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor was 1.012 and was the result of dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost.

Risk Disclosures - *Interest Rate Risk* is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on page 43 that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on page 43 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, 2012.

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

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

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

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2012:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Investment Rating	Concentration of Credit Risk	Time to Mature (Years)	Weighted Average Maturity
U.S. Government Agency securities:							
Union Bank ⁽¹⁾	\$ 46,731,039	\$ -	\$ 46,731,039	Aaa/AAA	77%	2.07	1.59
Government Securities Money							
Market Mutual Funds	17,330	-	17,330	Not Rated	0%		
LAIF	14,108,187	-	14,108,187	Not Rated	23%	0.73	0.17
Total Investments	<u>60,856,556</u>	<u>-</u>	<u>60,856,556</u>		<u>100%</u>		
Cash Deposits with Banks	14,519,196	-	14,519,196				
Certificates of Deposit	-	2,786,047	2,786,047				
Cash on hand at Town	4,100	-	4,100				
Total Cash and Investments	<u>\$ 75,379,852</u>	<u>\$ 2,786,047</u>	<u>\$ 78,165,899</u>				

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

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

	Total Town	Fiduciary Funds	Totals
Cash and investments available for operations	\$ 58,953,574	16,426,278	\$ 75,379,852
Restricted cash and investments	1,314,179	1,471,868	2,786,047
Total cash and investments	\$ 60,267,753	\$ 17,898,146	\$ 78,165,899

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2012:

Description	Interest Rate	Maturity	Balance
General Fund:			
Open Doors Associates, Ltd.	7%	2024	\$ 718,659
BMP Loans	3%	Various	39,130
Total General Fund			757,789
 Community Development Block Grant Fund (CDBG):			
Active Home Loans	Various	Various	184,614
Open Doors Associates, Ltd.	7%	2024	94,721
Housing Conservation Loans	0-5%	Various	98,660
Total CDBG			377,995
Total Long-Term Notes Receivable - Government-wide Statement of Net Assets			1,135,784
 Successor Agency Affordable Housing (RDA Housing):			
Project Match	Various	Various	493,777
Total Long-Term Notes Receivable			\$ 1,629,561

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

Under a note dated April 21, 1992, the Town agreed to loan a maximum amount of \$339,250 to Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. As of June 30, 2012, \$718,659 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the project and advances by the Town under this note.

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

Project Match - The Redevelopment Agency entered into a loan agreement with Project Match, a nonprofit benefit corporation to acquire and rehabilitate four or five bedroom single family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. Since inception of the loan till June 30, 2012, no interest or principal payment has been made. This loan was transferred to the Successor Agency as of February 1, 2012.

NOTE 4 - INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2012, inter-fund receivables and payables consisted of the following:

	Due to Other Funds	Due From Other Funds
General Fund	\$ -	\$ 124,142
Non-Point Source Maintenance Fund	124,142	-
Totals	\$ 124,142	\$ 124,142

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, 2012 were as follows:

Funds Making Transfers	Fund Receiving Transfers					Total Transfers Out
	General Fund	Appropriated Reserve	Low and Moderate Housing	Nonmajor Governmental		
General Fund	\$ -	\$ 1,849,882	\$ -	\$ -	\$ -	\$ 1,849,882
Appropriated Reserve	120,803	-	-	92,976	-	213,779
Certificates of Participation	-	-	837,313	650,000	-	1,487,313
Internal Service Funds	-	73,546	-	-	-	73,546
Nonmajor Governmental	110,920	-	-	-	-	110,920
Total Transfers In	\$ 231,723	\$ 1,923,428	\$ 837,313	\$ 742,976	\$ -	\$ 3,735,440

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NOTE 5 - CAPITAL ASSETS

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

	Balance at June 30, 2011	Transfers to RDA Successor Agency	Adjustments and Additions	Retirements	Balance at June 30, 2012
Capital Assets not being depreciated:					
Land	\$ 25,650,991	\$ (5,321,307)	\$ -	\$ -	\$ 20,329,684
Construction in Progress	4,276,988	-	2,305,044	3,221,515	3,360,517
Total capital assets not being depreciated	<u>29,927,979</u>	<u>(5,321,307)</u>	<u>2,305,044</u>	<u>3,221,515</u>	<u>23,690,201</u>
Capital Assets being depreciated:					
Buildings and Improvements	25,549,604	(4,067,708)	6,040,553	-	27,522,449
Equipment & Vehicle	9,153,629	-	535,335	-	9,688,964
Infrastructure - All Other	10,408,373	-	4,100,535	-	14,508,908
Infrastructure - Streets	46,978,091	-	1,506,062	-	48,484,153
Total capital assets being depreciated	<u>92,089,697</u>	<u>(4,067,708)</u>	<u>12,182,485</u>	<u>-</u>	<u>100,204,474</u>
Less accumulated depreciation for:					
Buildings and Improvements	5,045,723	(1,830,470)	594,167	-	3,809,420
Equipment and Improvements	6,439,666	-	759,915	-	7,199,581
Infrastructure - All Other	1,311,870	-	307,127	-	1,618,997
Infrastructure - Streets	20,788,374	-	1,421,915	-	22,210,289
Total accumulated depreciation	<u>33,585,633</u>	<u>(1,830,470)</u>	<u>3,083,124</u>	<u>-</u>	<u>34,838,287</u>
Net capital assets being depreciated	<u>58,504,064</u>	<u>(2,237,238)</u>	<u>9,099,361</u>	<u>-</u>	<u>65,366,187</u>
Governmental activity capital assets, net	<u>\$ 88,432,043</u>	<u>\$ (7,558,545)</u>	<u>\$ 11,404,405</u>	<u>\$ 3,221,515</u>	<u>\$ 89,056,388</u>

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

Governmental Activities	Depreciation Expense
General Government	\$ 249,362
Public Safety	328,771
Parks & Public Works	2,163,007
Community Development	110,346
Library	77,777
Sanitation	37,082
Redevelopment	116,779
Total Governmental Activities	<u>\$ 3,083,124</u>

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

	Balance at June 30, 2011	Transfers from Town RDA	Adjustments and Additions	Retirements	Balance at June 30, 2012
Capital Assets not being depreciated:					
Land	\$ -	\$ 5,321,307	\$ -	\$ -	\$ 5,321,307
Total capital assets not being depreciated	-	5,321,307	-	-	5,321,307
Capital Assets being depreciated:					
Buildings and Improvements	-	4,067,708	-	-	4,067,708
Total capital assets being depreciated	-	4,067,708	-	-	4,067,708
Less accumulated depreciation for:					
Buildings and Improvements	-	1,830,470	-	-	1,830,470
Total accumulated depreciation	-	1,830,470	-	-	1,830,470
Net capital assets being depreciated	-	2,237,238	-	-	2,237,238
Governmental activity capital assets, net	\$ -	\$ 7,558,545	\$ -	\$ -	\$ 7,558,545

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

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Transfers to Successor Agency	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
1992 COP	5-9%	2012	\$ 2,960,000	\$ 240,000	\$ 100,833	\$ 139,167	\$ -	\$ -	\$ -
2002 COP	2.5-5%	2031	10,725,000	8,865,000	8,600,000	265,000	-	-	-
2010 COP	2.5-4.25%	2028	15,675,000	15,675,000	15,145,000	530,000	-	-	-
Subtotal COP's			29,360,000	24,780,000	23,845,833	934,167	-	-	-
Premiums			753,095	715,440	677,785	37,655	-	-	-
Total Long-Term Debt			\$ 30,113,095	\$ 25,495,440	\$ 24,523,618	\$ 971,822	\$ -	\$ -	\$ -

As of February 1, 2012, the management transferred long-term debt issued by the Town's 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, 2012:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Transfers from Town	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
1992 COP	5-9%	2012	\$ 2,960,000	\$ -	\$ 100,833	\$ 100,833	\$ -	\$ -	\$ -
2002 COP	2.5-5%	2031	10,725,000	-	8,600,000	-	8,600,000	275,000	8,325,000
2010 COP	2.5-4.25%	2028	15,675,000	-	15,145,000	-	15,145,000	650,000	14,495,000
Subtotal COP's			29,360,000	-	23,845,833	100,833	23,745,000	925,000	22,820,000
Premiums			753,095	-	677,785	-	677,785	-	677,785
Total Long-Term Debt			\$ 30,113,095	\$ -	\$ 24,523,618	\$ 100,833	\$ 24,422,785	\$ 925,000	\$ 23,497,785

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

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

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

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 1992, 2002, and 2010. Under the agreements, the Agency will use available net tax increment revenues resulting from the projects’ effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreements for the projects. Net tax increment revenues are all taxes allocated to and paid into the Redevelopment Agency Capital Projects Fund for the Project Area. As of February 1, 2012, tax increment revenues and related obligations from these agreements have been and will be reported in the Successor Agency private-purpose trust fund. See **Note 12** for additional disclosure.

Future debt service requirements of the 1992, 2002, and 2010 Certificates of Participation (collectively the “COPs”) as of June 30, 2012, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2013	\$ 925,000	\$ 1,017,971	\$ 1,942,971
2014	955,000	980,578	1,935,578
2015	990,000	938,055	1,928,055
2016	1,025,000	897,398	1,922,398
2017	1,065,000	858,303	1,923,303
2018-2022	6,000,000	3,537,179	9,537,179
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	\$ 23,745,000	\$ 10,786,745	\$ 34,531,745

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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 \$940,387 as of June 30, 2012. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

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

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of the non-obligated debt outstanding was \$140,000 as of June 30, 2012 and was excluded from the Town's financial statements.

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, 2012, the Non-point Source Maintenance special revenue fund had a deficit fund balance of \$58,464 which was subsidized by the Town's General Fund.

As of June 30, 2012, fund balances were classified as follows:

Restricted

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

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

Assigned

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Plan Description - The Town of Los Gatos contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2012 was 19.623% of annual covered payroll for non-safety (miscellaneous)

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JUNE 30, 2012

and 39.313% for safety employees. The contribution requirements of plan members and the Town are established and may be amended by PERS.

Annual Pension Cost - For fiscal year ended June 30, 2012, the Town's \$3,947,080 annual pension cost for PERS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases from 3.55% and 14.45% that vary by age, duration of service, and type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.0% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three Year Trend Information PERS

Safety Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	1,638,539	100%	-
6/30/2011	1,730,796	100%	-
6/30/2012	2,094,561	100%	-

Miscellaneous Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	1,402,933	100%	-
6/30/2011	1,203,491	100%	-
6/30/2012	1,852,519	100%	-

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Plan Actuarial Value and Funding Progress (Required Supplementary Information)

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

Safety Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$ 8,700,467,733	\$ 7,464,927,716	\$ 1,235,540,017	85.8%	\$ 914,840,596	135.1%
2009	\$ 9,721,675,347	\$ 8,027,158,724	\$ 1,694,516,623	82.6%	\$ 973,814,168	174.0%
2010	\$ 10,165,475,166	\$ 8,470,235,152	\$ 1,695,240,014	83.3%	\$ 955,980,815	177.3%

Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$ 59,377,787	\$ 53,904,084	\$ 5,473,703	90.8%	\$ 9,643,094	56.8%
2009	\$ 66,123,224	\$ 56,676,749	\$ 9,446,475	85.7%	\$ 9,101,528	103.8%
2010	\$ 70,468,550	\$ 59,225,131	\$ 11,243,419	84.0%	\$ 8,888,743	126.5%

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

Funding Policy - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the year ended June 30, 2012, the Town contributed \$1,725,956 to the plan, including \$635,956 for

TOWN OF LOS GATOS, CALIFORNIA
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JUNE 30, 2012

current premiums and an additional \$1,090,000 to prefund benefits. All related obligations are paid from the Town's General Fund.

Annual OPEB Cost and Net OPEB Obligation - As of June 30, 2012 and for the year then ended, the Town's Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

NOO as of June 30, 2011	\$ 2,551,863
Annual OPEB Cost	
Annual Required Contribution	2,129,000
Interest on NOO	153,000
NOO adjustment	(226,000)
Net annual OPEB cost	2,056,000
Contributions made (includes benefit payments)	(1,725,956)
NOO as of June 30, 2012	\$ 2,881,907

Trend Information

Year	Actual Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2010	1,921,000	949,845	49%	2,024,863
2011	1,928,000	1,401,000	73%	2,551,863
2012	2,056,000	1,725,956	84%	2,881,907

Funded Status and Funding Progress - As of June 30, 2011, the most recent actuarial valuation date, the plan was 8.8% funded. The actuarial accrued liability (AAL) for benefits was \$22,121,000 and the actuarial value of plan assets was approximately \$3,272,382, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,848,618. The covered payroll (annual payroll of active employees covered by the plan) was \$13,915,000 and the ratio of UAAL to the covered payroll was 136%.

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, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Ultimate investment return of 7.25% (upward trend 0.25%-0.30% per year to 7.25% in FY 17/18)
2. Projected salary increases of 3.25%.

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3. The annual healthcare cost trend ultimate rate is 5%. The select rates were 9%-9.4% 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) (26 years remaining as of June, 30, 2012)
 - b. 20-year closed period for method, assumption, and plan changes
 - c. 15-year closed period for gains and losses; and
 - d. Maximum 30 year combined period
7. Actuarial method for valuing assets: Investment gains and losses spread over a 5-year rolling period, not less than 80% nor more than 120% of market value.

Plan Actuarial Value and Funding Progress (Required Supplementary Information)

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$ 14,265,000	\$ -	\$ 14,265,000	0.0%	\$ 13,372,000	106.7%
2010	17,712,000	425,000	17,287,000	2.4%	13,477,000	128.3%
2011	22,121,000	3,272,382	18,848,618	14.8%	13,915,000	135.5%

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.

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Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2011, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total Assets	\$ 47,150,382
Total Liabilities	<u>20,617,172</u>
Net Assets	<u><u>\$ 26,533,210</u></u>
Total Operating Revenue	\$ 8,860,971
Total Operating Expense	<u>14,935,442</u>
Net Operating Income	(6,074,471)
General Revenue	<u>811,754</u>
Change in Net Assets	(5,262,717)
Beginning Net Assets	<u>31,796,107</u>
Ending Net Assets	<u><u>\$ 26,533,390</u></u>

Local Agency Workers' Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAWCX for workers compensation claims coverage. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible for claims up to \$1,000,000. For claims greater than \$1,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 6371 Auburn Blvd., Suite B, Citrus Heights, California, 94604-2050.

Condensed full accrual basis audited financial information of LAWCX as of and for the year ended June 30, 2011, is as follows:

Total Assets	\$ 62,184,207
Total Liabilities	<u>34,242,051</u>
Net Assets	<u><u>\$ 27,942,156</u></u>
Total Operating Revenue	\$ 8,664,105
Total Operating Expense	<u>6,872,538</u>
Net Operating Income	1,791,567
General Revenue	<u>-</u>
Change in Net Assets	1,791,567
Beginning Net Assets	<u>24,148,497</u>
Ending Net Assets	<u><u>\$ 25,940,064</u></u>

The Town has not significantly reduced its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

TOWN OF LOS GATOS, CALIFORNIA
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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, 2012:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2010	\$ 431,879	\$ 60,160	\$ 492,039
Claims incurred	481,829	374,916	856,745
Inc./(Dec.) in estimated liability for prior claims	-	-	-
Claims paid	(399,585)	(406,083)	(805,668)
Claims payable balance - June 30, 2011	514,123	28,993	543,116
Claims incurred	1,023,598	320,219	1,343,817
Inc./(Dec.) in estimated liability for prior claims	-	-	-
Claims paid	(730,338)	(39,554)	(769,892)
Claims payable balance - June 30, 2012	<u>\$ 807,383</u>	<u>\$ 309,658</u>	<u>\$ 1,117,041</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.

The Bill provides that upon dissolution of a redevelopment agency, either the Town or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 9, 2012, the Town Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of Town resolution number 2012-001.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

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.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the Town are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The Town's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the Town.

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.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the Town. After the date of dissolution, 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.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the Town to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss. An extraordinary gain equal to the extraordinary loss in reported in the trust fund was reported in the Town's government-wide statement of activities.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in the governmental funds - increase to net assets of the Successor Agency Trust Fund	\$ (5,038,620)
Capital assets reported in the government-wide financial statements - Increase (decrease) to net assets	(7,558,545)
Loans receivable reported in the government-wide financial statements - Increase (decrease) to net assets	(493,777)
Long-term liabilities reported in the government-wide financial statements - Increase (decrease) to net assets:	
Certificates of participation	24,523,618
Interest payable	431,777
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the Town).	\$ 11,864,453

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

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

As of June 30, 2012, the Town has open construction contracts. The remaining commitment on the construction contracts was approximately \$1,490,730.

As of June 30, 2012, \$13,246,779 was reported in the Successor Agency Trust Fund as due to other governments for obligations owed to the County of Santa Clara resulting from the County's due diligence review. The Successor Agency trust fund reported a net deficit as of June 30, 2012.

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

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

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

Affordable Housing Cooperative Agreement

In March of 2011, the Redevelopment Agency entered into an affordable housing cooperative agreement with the Town for the purpose of funding affordable housing projects and programs to be developed and/or administered by the Town in accordance with the Redevelopment Agency's five year

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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. Acquisition of property and development of affordable housing on Knowles Ave
- d. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos
- e. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- f. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

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

Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND)

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

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

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

Redevelopment Agency Affordable Housing Fund is used for the implementation of the Agency's required Affordable Housing Set-Aside Program obligations. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

**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, 2012**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Other taxes	\$ 80,000	\$ 80,000	\$ 277,780	\$ 197,780
Intergovernmental	7,572,712	6,010,000	-	(6,010,000)
Charges for services	2,716,536	1,426,061	1,535,845	109,784
Other	-	-	1,183	1,183
Total Revenues	10,369,248	7,516,061	1,814,808	(5,701,253)
EXPENDITURES				
Sanitation and other	-	-	-	-
Capital outlay	16,730,465	10,456,932	10,274,345	182,587
Total Expenditures	16,730,465	10,456,932	10,274,345	182,587
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,361,217)	(2,940,871)	(8,459,537)	(5,518,666)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,754,625	1,949,882	1,923,428	(26,454)
Operating transfers (out)	(112,000)	(112,000)	(213,779)	(101,779)
Total Other Financing Sources (Uses)	3,642,625	1,837,882	1,709,649	(128,233)
CHANGE IN FUND BALANCE	\$ (2,718,592)	\$ (1,102,989)	(6,749,888)	\$ (5,646,899)
BEGINNING FUND BALANCE			13,416,625	
ENDING FUND BALANCE			\$ 6,666,737	

**TOWN OF LOS GATOS
 CERTIFICATES OF PARTICIPATION FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (GAAP)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Property taxes	\$ 8,205,160	\$ 8,205,160	\$ 4,510,833	\$ (3,694,327)
Less ERAF payment	-	-	(324,266)	(324,266)
Interest	151,200	151,200	(22,715)	(173,915)
Other	2,094,727	2,094,727	1,989,852	(104,875)
Total Revenues	<u>10,451,087</u>	<u>10,451,087</u>	<u>6,153,704</u>	<u>(4,297,383)</u>
EXPENDITURES				
Redevelopment	5,950,809	5,950,809	1,995,431	3,955,378
Debt Service:				
Principal	1,035,000	1,035,000	934,167	100,833
Interest & fees	1,213,726	1,213,726	1,143,185	70,541
Total Expenditures	<u>8,199,535</u>	<u>8,199,535</u>	<u>4,072,783</u>	<u>4,126,752</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,251,552</u>	<u>2,251,552</u>	<u>2,080,921</u>	<u>(170,631)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers (out)	(991,032)	(991,032)	(1,487,313)	(496,281)
Total Other Financing Sources (Uses)	<u>(991,032)</u>	<u>(991,032)</u>	<u>(1,487,313)</u>	<u>(496,281)</u>
Extraordinary Gain (Loss) - RDA Dissolution	-	-	(2,047,919)	(2,047,919)
CHANGE IN FUND BALANCE	<u>\$ 1,260,520</u>	<u>\$ 1,260,520</u>	<u>(1,454,311)</u>	<u>\$ (666,912)</u>
BEGINNING FUND BALANCE			<u>1,454,311</u>	
ENDING FUND BALANCE			<u>\$ -</u>	

TOWN OF LOS GATOS
REDEVELOPMENT AGENCY HOUSING SET ASIDE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Interest	\$ 25,000	\$ 151,200	\$ 2,166	\$ (149,034)
Other	-	-	1,100,000	1,100,000
Total Revenues	25,000	151,200	1,102,166	950,966
EXPENDITURES				
Redevelopment	353,091	353,091	741,298	(388,207)
Capital outlay	53,000	53,000	-	53,000
Total Expenditures	406,091	406,091	741,298	(335,207)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(381,091)	(254,891)	360,868	615,759
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,641,032	1,641,032	837,313	(803,719)
Operating transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	1,641,032	1,641,032	837,313	(803,719)
Extraordinary Gain (Loss) - RDA Dissolution	-	-	(1,198,181)	(1,198,181)
CHANGE IN FUND BALANCE	<u>\$ 1,259,941</u>	<u>\$ 1,386,141</u>	-	<u>\$ (187,960)</u>
BEGINNING FUND BALANCE			-	
ENDING FUND BALANCE			<u>\$ -</u>	

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds:

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

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

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

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue. As a result of the Redevelopment Agency Dissolution, this fund has been closed as of June 30, 2012.

Special Revenue Funds:

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

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

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

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

	CAPITAL PROJECTS FUNDS				SPECIAL REVENUE FUNDS				Total Non Major Governmental Funds
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
ASSETS									
Cash & Investments	\$ 1,116,921	\$ 2,450,322	\$ 193,300	\$ 3,760,543	\$ -	\$ -	\$ 130,994	\$ 130,994	\$ 3,891,537
Restricted cash & investments	-	-	-	-	37,116	-	-	37,116	37,116
Receivables:									
Accounts	-	-	-	-	-	202,500	-	202,500	202,500
Intergovernmental Receivable	-	-	-	-	203,664	-	345	204,009	204,009
Total Assets	\$ 1,116,921	\$ 2,450,322	\$ 193,300	\$ 3,760,543	\$ 240,780	\$ 202,500	\$ 131,339	\$ 574,619	\$ 4,335,162
LIABILITIES									
Accounts Payable	\$ 287	\$ -	\$ -	\$ 287	\$ 94	\$ 395	\$ 1,422	\$ 1,911	\$ 2,198
Accrued payroll and benefits	-	-	-	-	-	1,427	-	1,427	1,427
Due to other funds	-	-	-	-	-	124,142	-	124,142	124,142
Deferred revenue	-	-	-	-	210,115	-	-	210,115	210,115
Total Liabilities	287	-	-	287	210,209	125,964	1,422	337,595	337,882
FUND BALANCE									
Restricted for:									
Capital Projects	1,116,634	2,450,322	193,300	3,760,256	-	-	-	-	3,760,256
Committed to:									
Repairs and Maintenance	-	-	-	-	-	-	129,917	129,917	129,917
Unassigned	-	-	-	-	30,571	76,536	-	107,107	107,107
Total Fund Balances	1,116,634	2,450,322	193,300	3,760,256	30,571	76,536	129,917	237,024	3,997,280
Total Liabilities and Fund Balances	\$ 1,116,921	\$ 2,450,322	\$ 193,300	\$ 3,760,543	\$ 240,780	\$ 202,500	\$ 131,339	\$ 574,619	\$ 4,335,162

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

	CAPITAL PROJECTS FUNDS				
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Redevelopment Agency Capital Projects	Total Capital Projects Funds
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	239,900	44,387	-	-	284,287
Intergovernmental	-	-	871,471	-	871,471
Charges for Services	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Interest	10,717	24,976	4,565	1,979	42,237
Other	-	-	-	-	-
Total Revenues	250,617	69,363	876,036	1,979	1,197,995
EXPENDITURES					
Current:					
Parks and Public Works	-	-	-	-	-
General Government	-	-	-	-	-
Sanitation and Other	-	-	-	-	-
Redevelopment	-	-	-	545,426	545,426
Capital Outlay	439	4,707	650,000	-	655,146
Total Expenditures	439	4,707	650,000	545,426	1,200,572
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	250,178	64,656	226,036	(543,447)	(2,577)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	650,000	650,000
Transfers (out)	-	-	(106,000)	-	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	650,000	544,000
Extraordinary Loss - Dissolution	-	-	-	(1,349,601)	(1,349,601)
Changes in Fund Balances	250,178	64,656	120,036	(1,243,048)	(808,178)
Fund Balances - Beginning of year	866,456	2,385,666	73,264	1,243,048	4,568,434
Fund Balances - End of year	\$1,116,634	\$ 2,450,322	\$ 193,300	\$ -	\$ 3,760,256

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	SPECIAL REVENUE FUNDS				Total
	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
REVENUES					
Property Taxes	\$ -	\$ -	\$ 37,760	\$ 37,760	\$ 37,760
Other Taxes	-	-	-	-	284,287
Intergovernmental	-	-	-	-	871,471
Charges for Services	-	135,000	-	135,000	135,000
Fines and Forfeitures	-	-	329	329	329
Interest	9,408	-	1,242	10,650	52,887
Other	10,312	-	-	10,312	10,312
Total Revenues	19,720	135,000	39,331	194,051	1,392,046
EXPENDITURES					
Current:					
Parks and Public Works	-	-	16,005	16,005	16,005
General Government	93	-	-	93	93
Sanitation and Other Redevelopment	-	116,607	-	116,607	116,607
Capital Outlay	-	-	-	-	545,426
	-	-	-	-	655,146
Total Expenditures	93	116,607	16,005	132,705	1,333,277
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,627	18,393	23,326	61,346	58,769
OTHER FINANCING SOURCES (USES)					
Transfers in	92,976	-	-	92,976	742,976
Transfers (out)	-	-	(4,920)	(4,920)	(110,920)
Total Other Financing Sources (Uses)	92,976	-	(4,920)	88,056	632,056
Extraordinary Loss - Dissolution	-	-	-	-	(1,349,601)
Changes in Fund Balances	112,603	18,393	18,406	149,402	(658,776)
Fund Balances - Beginning of year	(82,032)	58,143	111,511	87,622	4,656,056
Fund Balances - End of year	\$ 30,571	\$ 76,536	\$ 129,917	\$ 237,024	\$ 3,997,280

(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, 2012**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	210,594	-	(210,594)	-	-	-
Charges for services	-	-	-	135,000	-	(135,000)
Fines and forfeitures	-	-	-	-	-	-
Interest	12,500	9,408	(3,092)	-	-	-
Other	-	10,312	10,312	-	-	-
Total Revenues	223,094	19,720	(203,374)	135,000	-	(135,000)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
General government	31,881	93	31,788	-	-	-
Sanitation and other	-	-	-	135,300	116,607	18,693
Redevelopment	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	31,881	93	31,788	135,300	116,607	18,693
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	191,213	19,627	(171,586)	(300)	(116,607)	(116,307)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	92,976	92,976	-	-	-
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	92,976	92,976	-	-	-
Extraordinary Gain (Loss) - RDA Dissolution	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 191,213	112,603	\$ (78,610)	\$ (300)	(116,607)	\$ (116,307)
BEGINNING FUND BALANCE		(82,032)			58,143	
ENDING FUND BALANCE		\$ 30,571			\$ (58,464)	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 37,760	\$ 37,760	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	92,000	239,900	147,900
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	329	329	-	-	-
Interest	2,440	1,242	(1,198)	10,540	10,717	177
Other	-	-	-	-	-	-
Total Revenues	40,200	39,331	(869)	102,540	250,617	148,077
EXPENDITURES						
Parks and public works	48,660	16,005	32,655	-	-	-
General government	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	-
Capital outlay	-	-	-	440	439	1
Total Expenditures	48,660	16,005	32,655	440	439	1
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,460)	23,326	31,786	102,100	250,178	148,078
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	-	-	-
Extraordinary Gain (Loss) - RDA Dissolution	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ (13,380)	18,406	\$ 31,786	\$ 102,100	250,178	\$ 148,078
BEGINNING FUND BALANCE		111,511			866,456	
ENDING FUND BALANCE		\$ 129,917			\$ 1,116,634	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	CONSTRUCTION TAX			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	15,000	44,387	29,387	-	-	-
Intergovernmental	-	-	-	832,290	871,471	39,181
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	36,010	24,976	(11,034)	2,020	4,565	2,545
Other	-	-	-	-	-	-
Total Revenues	51,010	69,363	18,353	834,310	876,036	41,726
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
General government	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	-
Capital outlay	-	4,707	(4,707)	650,000	650,000	-
Total Expenditures	-	4,707	(4,707)	650,000	650,000	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	51,010	64,656	13,646	184,310	226,036	41,726
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(106,000)	(106,000)	-
Total Other Financing Sources (Uses)	-	-	-	(106,000)	(106,000)	-
Extraordinary Gain (Loss) - RDA Dissolution	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 51,010	64,656	\$ 13,646	\$ 78,310	120,036	\$ 41,726
BEGINNING FUND BALANCE		2,385,666			73,264	
ENDING FUND BALANCE		\$ 2,450,322			\$ 193,300	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	REDEVELOPMENT AGENCY CAPITAL PROJECT			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 37,760	\$ 37,760	\$ -
Other taxes	-	-	-	107,000	284,287	177,287
Intergovernmental	-	-	-	1,042,884	871,471	(171,413)
Charges for services	-	-	-	135,000	135,000	-
Fines and forfeitures	-	-	-	-	329	329
Interest	10,000	1,979	(8,021)	73,510	52,887	(20,623)
Other	-	-	-	-	10,312	10,312
Total Revenues	10,000	1,979	(8,021)	1,396,154	1,392,046	(4,108)
EXPENDITURES						
Parks and public works	-	-	-	48,660	16,005	32,655
General government	-	-	-	31,881	93	31,788
Sanitation and other	-	-	-	135,300	116,607	18,693
Redevelopment	715,952	545,426	170,526	715,952	545,426	170,526
Capital outlay	-	-	-	650,440	655,146	(4,706)
Total Expenditures	715,952	545,426	170,526	1,582,233	1,333,277	248,956
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(705,952)	(543,447)	162,505	(186,079)	58,769	244,848
OTHER FINANCING SOURCES (USES)						
Operating transfers in	600,000	650,000	50,000	600,000	742,976	142,976
Operating transfers (out)	-	-	-	(110,920)	(110,920)	-
Total Other Financing Sources (Uses)	600,000	650,000	50,000	489,080	632,056	142,976
Extraordinary Gain (Loss) - RDA Dissolution	-	(1,349,601)	-	-	(1,349,601)	-
CHANGE IN FUND BALANCE	\$ (105,952)	(1,243,048)	\$ 212,505	\$ 303,001	(658,776)	\$ 387,824
BEGINNING FUND BALANCE		1,243,048			4,656,056	
ENDING FUND BALANCE		\$ -			\$ 3,997,280	

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
ASSETS								
Cash & Investments	\$ 3,140,417	\$ 3,109,740	\$ 1,910,155	\$ 200,837	\$ 2,530,487	\$ 486,414	\$ 1,085,763	\$ 12,463,813
Receivables:								
Accounts	-	-	-	-	678	631	11,116	12,425
Materials, Supplies and Deposits	-	-	-	6,861	-	33,770	-	40,631
Equipment (Net)	-	-	-	-	-	12,724	7,959	20,683
Total Assets	\$ 3,140,417	\$ 3,109,740	\$ 1,910,155	\$ 207,698	\$ 2,531,165	\$ 533,539	\$ 1,104,838	\$ 12,537,552
LIABILITIES								
Accounts Payable	6,851	-	3,205	1,128	50,698	8,681	79,376	149,939
Accrued Payroll and Benefits	166	1,719	2,152	-	7,115	3,130	4,777	19,059
Due to Other Governments	-	-	-	-	7	19	-	26
Claims Payable	-	807,383	309,658	-	-	-	-	1,117,041
Total Liabilities	\$ 7,017	\$ 809,102	\$ 315,015	\$ 1,128	\$ 57,820	\$ 11,830	\$ 84,153	\$ 1,286,065
NET ASSETS								
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,724	\$ 7,959	\$ 20,683
Unrestricted	3,133,400	2,300,638	1,595,140	206,570	2,473,345	508,985	1,012,726	11,230,804
Total Net Assets	\$ 3,133,400	\$ 2,300,638	\$ 1,595,140	\$ 206,570	\$ 2,473,345	\$ 521,709	\$ 1,020,685	\$ 11,251,487

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 319,819	\$ 673,984	\$ 513,165	\$ 91,494	\$ 1,031,659	\$ 540,100	\$ 892,300	\$ 4,062,521
Interest	-	30	-	-	-	-	-	30
Use of money and property	-	-	-	-	-	-	135,314	135,314
Other	216,185	167,664	-	262	-	631	62,605	447,347
Total Operating Revenues	536,004	841,678	513,165	91,756	1,031,659	540,731	1,090,219	4,645,212
OPERATING EXPENSES								
Salaries and benefits	10,078	102,326	122,613	-	436,578	183,925	220,239	1,075,759
Insurance expenses	-	432,716	645,572	-	-	-	-	1,078,288
Depreciation expenses	-	-	-	-	-	6,772	2,770	9,542
Services and supplies	486,416	815,882	215,908	130,831	387,238	267,141	726,424	3,029,840
Total Operating Expenses	496,494	1,350,924	984,093	130,831	823,816	457,838	949,433	5,193,429
Operating Income (loss)	39,510	(509,246)	(470,928)	(39,075)	207,843	82,893	140,786	(548,217)
Transfers (in)	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	(73,546)	(73,546)
Net Transfers	-	-	-	-	-	-	(73,546)	(73,546)
Change in Net Assets	39,510	(509,246)	(470,928)	(39,075)	207,843	82,893	67,240	(621,763)
BEGINNING NET ASSETS	3,093,890	2,809,884	2,066,068	245,645	2,265,502	438,816	953,445	11,873,250
ENDING NET ASSETS	\$ 3,133,400	\$ 2,300,638	\$ 1,595,140	\$ 206,570	\$ 2,473,345	\$ 521,709	\$ 1,020,685	\$ 11,251,487

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$ 536,004	\$ 842,150	\$ 513,165	\$ 91,936	\$ 1,031,368	\$ 540,565	\$ 1,079,313	\$ 4,634,501
Payments to suppliers	(499,830)	-	-	(128,693)	(451,881)	(293,271)	(712,932)	(2,086,607)
Payments to employees	(10,230)	(103,698)	(124,847)	-	(442,689)	(186,596)	(221,189)	(1,089,249)
Claims paid	-	(957,986)	(606,046)	-	-	-	-	(1,564,032)
Net Cash Provided (Used) by Operating Activities	25,944	(219,534)	(217,728)	(36,757)	136,798	60,698	145,192	(105,387)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	(73,546)	(73,546)
Net Cash Provided (Used) by Noncapital Financing Activities	-	-	-	-	-	-	(73,546)	(73,546)
Net Increase(Decrease) in Cash and Investments	25,944	(219,534)	(217,728)	(36,757)	136,798	60,698	71,646	(178,933)
Cash and investments - beginning of year	3,114,473	3,329,274	2,127,883	237,594	2,393,689	425,716	1,014,117	12,642,746
Cash and investments - end of year	\$ 3,140,417	\$ 3,109,740	\$ 1,910,155	\$ 200,837	\$ 2,530,487	\$ 486,414	\$ 1,085,763	\$ 12,463,813
Reconciliation of Operating Income to Cash Flows from Operating Activities:								
Operating Income	\$ 39,510	\$ (509,246)	\$ (470,928)	\$ (39,075)	\$ 207,843	\$ 82,893	\$ 140,786	\$ (548,217)
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	6,772	2,770	9,542
Change in assets and liabilities:								
Receivables, net	-	472	-	180	(291)	(166)	(10,906)	(10,711)
Other assets	-	-	-	2,193	-	(317)	-	1,876
Accounts payable	(13,414)	(4,020)	(27,464)	(55)	(70,754)	(28,500)	12,613	(131,594)
Accrued payroll and benefits	(152)	293,260	280,664	-	-	16	(71)	573,717
Cash Flows From Operating Activities	\$ 25,944	\$ (219,534)	\$ (217,728)	\$ (36,757)	\$ 136,798	\$ 60,698	\$ 145,192	\$ (105,387)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

AGENCY FUND
PARKNG IMPROVEMENT DISTRICT #88

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

**TOWN OF LOS GATOS
 AGENCY FUND
 PARKING IMPROVEMENT DISTRICT #88
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Balance		Balance
	June 30, 2011	Additions	June 30, 2012
ASSETS			
Cash and investments (Note 3)	\$ 41,943	\$ 132,996	\$ 148,209
Restricted cash and investments (Note 3)	282,914	2,078	-
Intergovernmental receivable	225,343	-	132,997
	<hr/>		<hr/>
Total Assets	\$ 550,200	\$ 135,074	\$ 281,206
	<hr/>		<hr/>
LIABILITIES			
Due to other governments	\$ 550,200	\$ 135,074	\$ 281,206
	<hr/>		<hr/>
Total Liabilities	\$ 550,200	\$ 135,074	\$ 281,206
	<hr/>		<hr/>

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

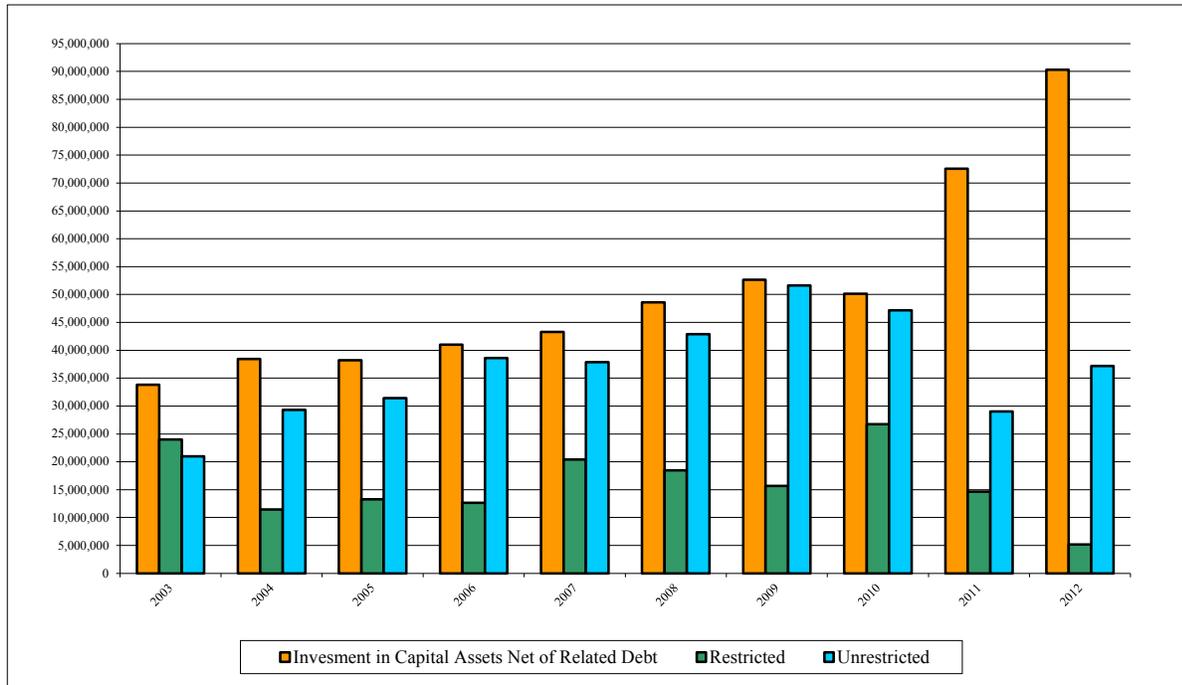
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

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 Assets by Component
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Investment in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2003	33,799,130	24,016,830	20,984,676	78,800,636
2004	38,417,211	11,463,187	29,308,135	79,188,533
2005	38,234,229	13,295,871	31,410,468	82,940,568
2006	41,019,121	12,665,493	38,609,085	92,293,699
2007	43,281,315	20,423,828	37,893,056	101,598,199
2008	48,581,378	18,459,776	42,884,826	109,925,980
2009	52,665,506	15,663,436	51,619,635	119,948,577
2010	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698
2012	90,333,451	5,167,236	37,192,210	132,692,897

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

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

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

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

Schedule 2

Expenses	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Governmental Activities:										
General government	\$ 4,140,359	\$ 4,246,133	\$ 4,341,526	\$ 4,383,584	\$ 4,570,391	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143
Police department	10,337,213	9,980,927	10,524,840	11,133,362	11,556,350	12,313,637	13,467,503	13,266,849	13,495,885	14,124,798
Parks and public works	6,410,103	6,179,328	5,953,319	6,523,888	7,222,052	6,958,449	8,671,678	7,458,085	7,155,905	7,827,332
Community development	2,277,109	2,229,686	2,494,689	2,887,818	2,735,223	3,064,865	3,389,151	3,522,477	3,099,269	3,434,551
Community services	973,554	1,046,351	920,562	948,650	2,388,250	1,060,922	1,162,284	1,270,240	666,015	-
Library services	1,779,697	1,807,662	1,786,696	1,880,465	1,892,448	1,956,767	2,067,476	2,038,009	1,892,805	1,938,577
Sanitation	833,096	832,538	834,525	574,344	414,610	502,196	407,048	655,713	342,893	158,205
Redevelopment	1,563,166	1,828,924	2,133,008	2,093,546	2,434,935	3,360,585	2,939,550	6,992,935	16,794,022	919,821
Interest and fees	1,139,358	662,867	696,266	708,585	704,794	670,415	631,159	612,700	1,278,381	1,123,842
Total Governmental Activities	\$ 29,453,655	\$ 28,814,415	\$ 29,685,430	\$ 31,134,241	\$ 33,919,053	\$ 35,121,567	\$ 38,059,316	\$ 40,464,809	\$ 49,905,328	\$ 35,672,269
Program Revenues										
Charges for Services:										
General government	\$ 2,159,167	\$ 1,959,401	\$ 1,640,632	\$ 1,981,557	\$ 2,127,670	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,108,424
Police department	1,403,332	1,446,067	1,386,479	1,343,028	1,250,636	895,569	1,358,361	2,110,357	2,153,843	2,324,397
Parks and public works	351,605	472,366	757,790	591,079	676,095	576,107	637,933	779,300	810,022	1,215,382
Community development	1,815,495	2,025,305	2,569,923	3,070,115	2,997,419	2,954,123	2,700,614	3,404,087	3,097,192	3,448,443
Community services	152,697	347,970	182,075	-	-	-	147,895	134,366	98,803	23,000
Library services	57,913	72,013	61,671	62,444	61,091	60,123	56,932	57,633	39,491	37,662
Sanitation	871,698	903,097	889,948	690,314	437,794	166,660	135,000	135,000	135,000	135,000
Operating Grants and Contributions:										
General government	-	-	-	-	-	54,242	8,834	10,237	15,638	6,453
Police department	590,489	546,508	566,180	745,797	645,034	744,347	538,629	81,997	27,748	29,980
Parks and public works	616,962	706,621	556,121	549,873	545,432	565,857	633,923	594,775	809,272	993,827
Community services	285,812	124,920	262,554	180,897	68,912	146,236	190,447	124,287	182,683	-
Library services	26,070	12,981	14,987	11,379	16,735	11,409	10,462	13,996	10,662	109
Sanitation	-	8,155	8,023	7,857	-	41,044	39,891	25,103	9,002	-
Redevelopment	143,043	-	-	-	-	-	-	-	-	-
Capital Grants and Contributions:										
Parks and public works	881,758	1,166,929	867,951	931,616	1,381,631	2,020,121	1,330,638	3,074,453	2,375,759	641,811
Total Program Revenues	\$ 9,356,041	\$ 9,792,333	\$ 9,764,334	\$ 10,165,957	\$ 10,208,449	\$ 9,385,751	\$ 8,944,968	\$ 11,883,363	\$ 10,922,046	\$ 9,964,488
General Revenues										
Property taxes	\$ 9,051,608	\$ 9,645,339	\$ 11,931,215	\$ 13,810,457	\$ 16,082,348	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866
Sales taxes	6,928,817	6,914,526	7,904,130	8,655,566	9,253,891	9,345,432	8,487,000	8,317,217	9,971,409	9,889,100
Other taxes	1,835,328	1,823,019	1,864,997	2,247,997	2,327,516	2,904,908	2,664,698	2,623,622	2,906,264	3,698,753
Motor vehicle in lieu	1,722,801	1,298,455	314,041	666,494	194,104	137,330	101,265	92,595	139,814	15,238
Interest	1,642,527	-	-	-	-	-	-	-	-	-
Investment earnings	-	(92,621)	1,286,433	1,922,819	3,607,966	4,190,951	2,949,119	1,155,929	760,905	331,510
Proceeds from sale of property	262,568	-	-	-	-	-	-	-	-	-
Proceeds from sale of property	-	-	(6,378)	-	-	-	-	-	-	-
Loss on disposal of capital assets	-	-	-	(3,592)	-	-	-	-	-	-
Sale of property	-	-	-	-	-	-	6,525,000	-	(870,127)	-
Miscellaneous	22,356	25,415	378,693	2,850,836	334,818	9,842	66,802	52,459	41,943	2,275,160
Extraordinary gain	-	-	-	-	-	-	-	-	-	-
(loss) dissolution of	-	-	-	-	-	-	-	-	-	11,864,453
Total General Revenues	\$ 21,466,005	\$ 19,614,133	\$ 23,673,131	\$ 30,150,578	\$ 31,800,643	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903	\$ 31,176,209	\$ 42,163,080
Change in Net Assets	\$ 1,368,391	\$ 592,051	\$ 3,752,035	\$ 9,182,294	\$ 8,090,039	\$ 8,163,698	\$ 10,022,597	\$ 2,516,457	\$ (7,807,073)	\$ 16,455,299

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

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

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

Schedule 3

	Fiscal Year									
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
General Fund										
Reserved	\$ 2,894,473	\$ 1,852,516	\$ 2,097,545	\$ 2,128,873	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -
Unreserved	9,701,339	10,544,144	12,144,819	18,000,209	16,406,211	17,236,569	16,861,752	18,594,984		
Nonspendable									1,500,000	
Restricted										
Assigned									21,806,781	21,992,886
Unassigned									2,433,556	4,019,409
Total general fund	<u>\$ 12,595,812</u>	<u>\$ 12,396,660</u>	<u>\$ 14,242,364</u>	<u>\$ 20,129,082</u>	<u>\$ 21,138,605</u>	<u>\$ 19,284,830</u>	<u>\$ 25,027,359</u>	<u>\$ 23,086,573</u>	<u>\$ 25,740,337</u>	<u>\$ 26,012,295</u>
All Other Governmental Funds										
Reserved	\$ 14,605,959	\$ 11,189,030	\$ 12,844,667	\$ 12,088,367	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,067,615	845,014	962,032	1,123,335	836,191	1,030,161	522,105	225,509		
Capital project funds	5,294,418	4,078,709	3,853,747	3,842,580	8,169,857	11,719,905	11,203,521	24,454,347		
Debt service funds	2,575,400	3,704,844	4,032,770	4,960,030	3,849,382	5,747,185	7,526,557	6,953,732		
Restricted									14,764,334	5,167,236
Assigned									4,786,547	5,389,674
Unassigned									(23,889)	107,107
Total all other governmental funds	<u>\$ 23,543,392</u>	<u>\$ 19,817,597</u>	<u>\$ 21,693,216</u>	<u>\$ 22,014,312</u>	<u>\$ 28,675,775</u>	<u>\$ 33,414,880</u>	<u>\$ 34,517,310</u>	<u>\$ 42,158,972</u>	<u>\$ 19,526,992</u>	<u>\$ 10,664,017</u>

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

Schedule 4

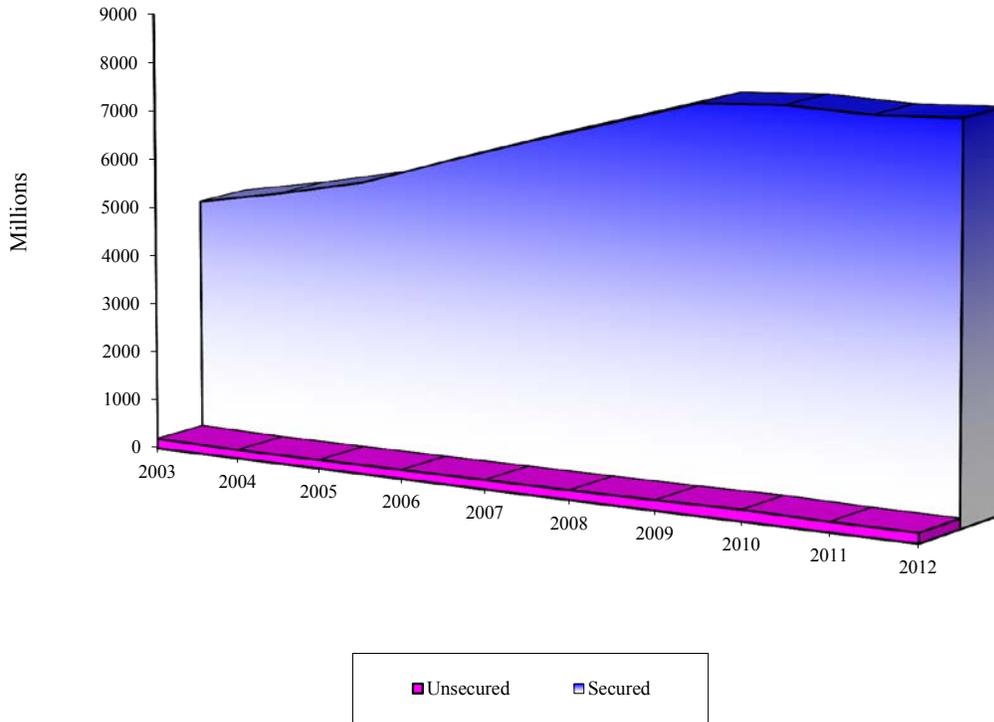
	Fiscal Year									
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Revenues:										
Taxes	\$ 17,788,711	\$ 18,541,280	\$ 22,099,118	\$ 25,112,221	\$ 27,888,072	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719
Intergovernmental	4,515,854	4,719,901	4,242,451	3,993,032	4,085,983	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729
Charges for Service	3,383,422	3,236,450	3,062,960	3,529,178	4,269,571	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671
Licenses & Permits	1,937,094	2,031,387	2,417,204	2,637,977	2,705,028	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348
Investment income	2,547,576	465,432	1,828,216	4,975,513	4,179,736	4,190,955	2,949,120	1,174,203	691,022	291,484
Fines and Forfeitures	187,117	751,532	580,937	1,005,773	561,665	369,292	618,771	662,699	737,903	809,790
Use of Property							60,749	51,948	38,502	38,974
Other	282,660	267,052	1,597	232,694	110,486	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328
Total revenues	30,642,434	30,013,034	34,232,483	41,486,388	43,800,541	44,976,665	43,100,649	45,439,565	46,245,148	44,692,043
Expenditures:										
Current										
Public safety	10,211,315	9,986,069	10,506,167	11,706,091	11,576,850	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953
Public Works	4,903,638	4,625,525	4,399,171	4,742,401	4,956,451	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960
Community Development	2,269,870	2,249,641	2,527,730	2,936,730	2,776,231	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195
Community Services	1,004,142	1,265,296	933,759	950,333	2,395,429	1,056,835	1,149,290	1,261,981	663,645	-
Library Services	1,811,866	1,798,331	1,770,991	1,876,022	1,904,900	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479
Sanitation & Other	819,658	846,809	848,547	551,164	387,674	470,660	375,483	642,512	314,899	116,607
General Government	4,048,876	4,234,148	4,372,991	4,358,853	4,586,513	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794
Redevelopment	1,459,013	1,773,889	2,084,767	2,573,514	2,966,132	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155
Capital outlay	9,077,120	6,911,405	2,142,212	4,682,848	4,689,187	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491
Debt service										
Principal repayment	150,000	370,000	385,000	400,000	414,167	429,167	445,000	465,000	485,000	934,167
Interest and fiscal charges	904,565	668,721	698,906	714,079	711,346	676,913	638,221	620,356	1,019,881	1,143,185
Total expenditures	36,660,063	34,729,834	30,670,241	35,492,035	37,364,880	42,195,302	43,419,514	56,733,966	66,606,303	48,317,986
Excess (deficiency) of revenues										
over (under) expenditures	(6,017,629)	(4,716,800)	3,562,242	5,994,353	6,435,661	2,781,363	(318,865)	(11,294,401)	(20,361,155)	(3,625,943)
Other financing sources(uses):										
Debt Issuance	-	-	-	-	-	-	-	16,428,095	-	-
Transfers in	3,256,337	2,352,051	2,130,315	2,854,245	10,611,169	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440
Transfers out	(2,456,337)	(1,702,052)	(2,130,315)	(2,640,785)	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)
Proceeds from issuance of debt	10,725,000	-	-	-	-	-	-	-	-	-
Total other financing sources(uses)	11,525,000	649,999	-	213,460	1,235,322	103,970	638,823	16,995,276	382,939	73,546
Special item:										
Sale of property	-	-	-	-	-	-	6,525,000	-	-	-
Extraordinary Gain (Loss) RDA Dissolution										(5,038,620)
Net change in fund balances	\$ 5,507,371	\$ (4,066,801)	\$ 3,562,242	\$ 6,207,813	\$ 7,670,983	\$ 2,885,333	\$ 6,844,958	\$ 5,700,875	\$ (19,978,216)	\$ (8,591,017)
Debt service as a percentage										
of non capital expenditures	3.98%	3.88%	3.95%	3.75%	3.57%	3.41%	3.13%	2.75%	3.05%	5.94%

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

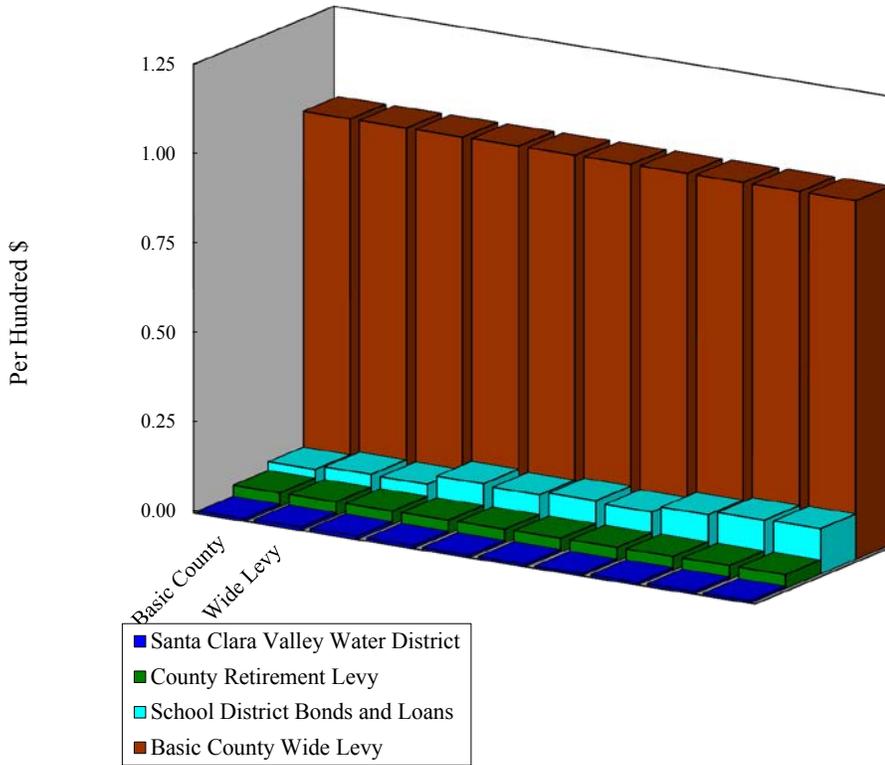


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2003	201,539,300	8.63%	4,913,724,163	4.88%	5,115,263,463	19,654,896,652	1.0460
2004	175,689,995	-12.83%	5,258,601,739	7.02%	5,434,291,734	21,034,406,956	1.0475
2005	179,611,684	2.23%	5,654,906,203	7.54%	5,834,517,887	22,619,624,812	1.0480
2006	186,694,066	3.94%	6,259,830,939	10.70%	6,446,525,005	25,039,323,756	1.0466
2007	194,195,209	4.02%	6,840,335,733	9.27%	7,034,530,942	27,361,342,932	1.0460
2008	201,629,315	3.83%	7,392,958,751	8.08%	7,594,588,066	29,571,835,004	1.0459
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0449
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0462
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0460
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0452

Source: Santa Clara County Assessed Value Report

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

Schedule 6



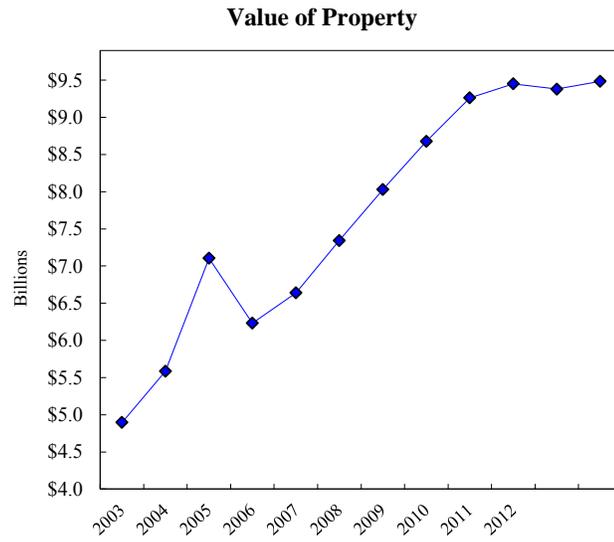
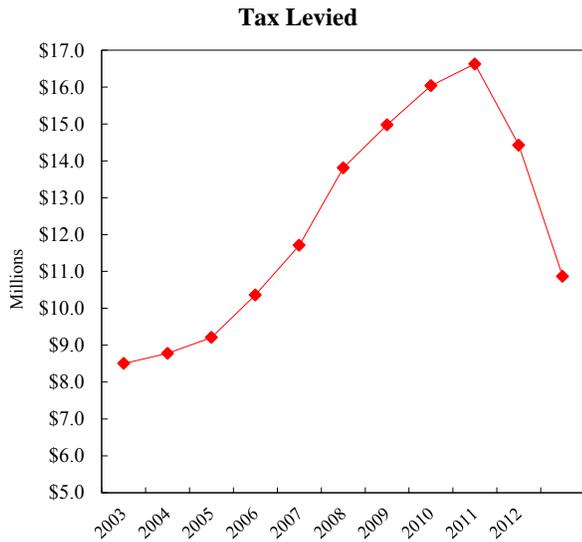
Fiscal Year	Basic County Wide Levy	County Retirement Levy	Santa Clara Valley Water District	County Direct Rate Subtotal	School District Bonds and Loans	Total
2003	1.0000	0.0388	0.0072	1.0460	0.0635	1.1095
2004	1.0000	0.0388	0.0087	1.0475	0.0749	1.1224
2005	1.0000	0.0388	0.0092	1.0480	0.0726	1.1206
2006	1.0000	0.0388	0.0078	1.0466	0.0996	1.1462
2007	1.0000	0.0388	0.0072	1.0460	0.0941	1.1401
2008	1.0000	0.0388	0.0071	1.0459	0.1032	1.1491
2009	1.0000	0.0388	0.0061	1.0449	0.0970	1.1419
2010	1.0000	0.0388	0.0074	1.0462	0.1147	1.1609
2011	1.0000	0.0388	0.0072	1.0460	0.1252	1.1712
2012	1.0000	0.0388	0.0064	1.0452	0.1269	1.1721

Source: Santa Clara County Book of Tax Rates

ASSEESSEE NAME	2005/06		2006/07		2007/08		2008/09		2009/10		2010/11		2011/12	
	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Assessed Value	Taxable Assessed Value	Percentage of Total City Assessed Value
Sobrato Interests IV/Sobrato Land Holdings	\$38,914,371	0.62%	\$65,972,484	0.96%	\$93,581,215	1.27%	\$147,774,933	1.86%	\$156,934,561	1.94%	\$150,781,092	1.87%	\$157,554,525	1.93%
Boccardo Corporation	\$18,463,398	0.29%	\$19,614,794	0.29%	\$20,044,530	0.27%	\$20,519,274	0.26%	\$37,747,020	0.47%	\$36,839,021	0.46%	\$37,173,877	0.46%
Knowles Los Gatos LLC	\$18,000,000	0.29%	\$19,500,000	0.29%	\$22,000,000	0.30%	\$35,000,000	0.44%	\$32,000,000	0.40%	\$45,778,757	0.57%	\$46,123,468	0.57%
SRI Old Town LLC	\$27,370,191	0.44%	\$27,917,594	0.41%	\$28,475,945	0.39%	\$29,045,463	0.37%	\$29,626,371	0.37%	\$29,556,155	0.37%	\$29,778,712	0.37%
CH Realty IV Downing LP	\$0	0.00%	\$0	0.00%	-	0.00%	\$28,815,000	0.36%	\$29,391,300	0.37%	\$19,000,000	0.24%	\$19,143,068	0.23%
Hercules Holding II LLC	\$0	0.00%	\$0	0.00%	-	0.00%	\$18,417,111	0.23%	\$25,886,805	0.33%	\$25,865,452	0.32%	-	0.00%
Health Care REIT Inc,	\$0	0.00%	\$0	0.00%	-	0.00%	\$24,480,000	0.31%	\$24,969,600	0.31%	\$19,720,749	0.25%	\$19,869,245	0.24%
750 University LLC	\$11,550,000	0.18%	\$15,500,000	0.23%	\$19,000,000	0.26%	\$22,000,000	0.28%	\$21,000,000	0.26%	\$20,950,229	0.26%	-	0.00%
Grosvenor USA Ltd.	\$0	0.00%	\$0	0.00%	\$20,145,000	0.27%	\$20,547,900	0.26%	\$20,958,858	0.26%	\$20,909,185	0.26%	\$21,066,630	0.26%
Alberto Way Holdings LLC	\$0	0.00%	\$0	0.00%	\$20,114,400	0.27%	\$20,516,687	0.26%	\$20,927,018	0.26%	\$20,877,418	0.26%	\$21,034,623	0.26%
D&K Los Gatos LLC	\$0	0.00%	\$0	0.00%	-	0.00%	\$14,041,573	0.18%	\$20,400,000	0.26%	\$20,351,651	0.25%	\$15,284,324	0.19%
CHL Ventures LP	\$0	0.00%	\$0	0.00%	\$19,380,000	0.26%	\$19,767,599	0.25%	\$20,162,950	0.25%	\$20,115,163	0.25%	\$20,266,630	0.25%
San Jose Water Works	\$16,778,527	0.27%	\$17,303,341	0.25%	\$17,828,902	0.24%	\$19,934,491	0.25%	\$20,162,848	0.25%	\$23,313,978	0.29%	\$29,369,137	0.36%
Toll House Hotel LLC	\$13,063,037	0.21%	\$13,943,390	0.20%	\$17,991,946	0.24%	\$16,127,937	0.20%	\$18,986,145	0.24%	\$15,848,626	0.20%	\$15,696,089	0.19%
Grade Way Apartments VI	\$0	0.00%	\$0	0.00%	-	0.00%	\$14,151,237	0.18%	\$14,434,261	0.18%	-	0.00%	-	0.00%
Lyon Baytree Apartments LLC	\$0	0.00%	\$15,799,076	0.23%	\$16,232,977	0.22%	\$16,722,748	0.21%	\$14,161,525	0.18%	\$14,111,407	0.18%	\$14,177,039	0.17%
KSL Capital Partners	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$27,838,903	0.35%	\$14,030,096	0.18%	\$39,960,114	0.50%	\$41,698,751	0.51%
Los Gatos Hotel Corp.	\$15,240,230	0.24%	\$15,574,890	0.23%	\$15,919,836	0.22%	-	0.00%	\$13,906,273	0.17%	\$15,978,009	0.20%	\$15,683,979	0.19%
David A. and Shari Flick	-	-	\$0	0.00%	-	0.00%	-	0.00%	-	0.00%	\$14,614,447	0.18%	\$14,724,487	0.18%
Pter R. Hofman	-	-	\$0	0.00%	-	0.00%	-	0.00%	-	0.00%	\$13,247,124	0.16%	-	0.00%
Paul H. Roskopf	\$11,730,000	0.19%	\$11,964,600	0.17%	-	0.00%	-	0.00%	\$12,696,924	0.16%	-	0.00%	\$12,926,457	0.16%
Elizabeth K. Dodson	\$11,523,006	0.18%	\$0	0.00%	-	0.00%	-	0.00%	\$12,617,140	0.16%	-	0.00%	-	0.00%
Health Care Property Partners	\$26,238,235	0.42%	\$26,762,998	0.39%	\$27,298,254	0.37%	\$27,844,216	0.35%	-	0.00%	-	0.00%	-	0.00%
BR3 Partners	\$14,492,144	0.23%	\$12,890,000	0.19%	\$15,718,594	0.21%	\$21,182,595	0.27%	-	0.00%	-	0.00%	-	0.00%
Community Hospital of Los Gatos Inc.	\$24,916,774	0.40%	\$25,415,105	0.37%	-	0.00%	\$17,081,971	0.21%	-	0.00%	-	0.00%	-	0.00%
Ohana University Ave. LLC	\$11,793,934	0.19%	\$12,029,810	0.18%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Robert M. Granum II	\$10,975,155	0.18%	\$0	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
GS Baytree LP	\$10,785,261	0.17%	\$0	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Robson Homes LLC	\$0	0.00%	\$11,500,001	0.17%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
GHC Shannon Valley Ranch LLC	\$0	0.00%	\$13,355,200	0.20%	\$20,087,540	0.27%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Sports Resorts Inc.	\$28,128,774	0.45%	\$29,845,553	0.44%	\$17,142,678	0.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Good Samaritan Hospital LP	\$15,561,632	0.25%	\$15,213,317	0.22%	\$15,866,548	0.21%	-	0.00%	-	0.00%	-	0.00%	\$19,372,795	0.24%
Windrose Los Gatos Properties LLC	\$0	0.00%	\$0	0.00%	\$14,626,641	0.20%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Grade Way Associates VI	\$13,311,000	0.21%	\$13,577,220	0.20%	\$13,873,763	0.19%	-	0.00%	-	0.00%	\$14,400,050	0.18%	\$14,508,482	0.18%
Park Row East Apartments Ltd.	\$13,231,691	0.21%	\$13,496,323	0.20%	\$13,766,249	0.19%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
LG Business Park LLC	\$13,231,691	0.21%	\$13,496,323	0.20%	\$0	0.00%	-	0.00%	-	0.00%	-	0.00%	\$18,342,931	0.23%
Total - Principal taxpayers	\$ 365,299,051	5.84%	\$ 410,672,019	6.00%	\$ 449,095,018	6.07%	\$ 561,809,638	7.07%	\$ 560,999,695	6.95%	\$ 582,218,627	7.24%	\$ 583,795,249	7.16%
Total - All real properties assessed by the Town (1)	\$6,259,830,939		\$6,840,335,733		\$7,392,958,751		\$7,949,991,620		\$8,075,202,207		\$8,043,793,200		\$8,151,530,237	

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

Source Data: California Municipal Statistics, Inc.



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2003	\$ 4,736,560	\$ 4,037,443	\$ 8,774,003	\$ 5,162,418,263	\$ 1,941,931,823	\$ 7,104,350,086
2004	4,834,464	4,376,896	9,211,361	5,480,295,734	753,210,332	6,233,506,066
2005	5,348,483	5,013,350	10,361,833	5,834,517,887	804,306,862	6,638,824,749
2006	5,739,846	5,976,062	11,715,909	6,446,525,005	897,448,660	7,343,973,665
2007	6,386,562	7,425,925	13,812,488	7,034,530,942	996,479,040	8,031,009,982
2008	6,901,935	8,072,176	14,974,111	7,594,588,066	1,081,483,541	8,676,071,607
2009	7,465,403	8,574,251	16,039,654	8,166,393,709	1,096,883,582	9,263,277,291
2010	7,608,137	9,022,863	16,630,999	8,317,387,662	1,134,135,499	9,451,523,161
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	1,115,727,508	9,485,484,258

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

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

Schedule 9

Fiscal Year	Governmental Activities			Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation				
2003	1,775,000	10,725,000		12,500,000	12,500,000	8.7%	432.98
2004	1,615,000	10,515,000		12,130,000	12,130,000	9.1%	419.56
2005	1,445,000	10,300,000		11,745,000	11,745,000	8.7%	405.49
2006	1,270,000	10,075,000		11,345,000	11,345,000	7.9%	389.65
2007	1,085,000	9,845,000		10,930,000	10,930,000	7.3%	372.25
2008	890,000	9,610,000		10,500,000	10,500,000	6.2%	348.03
2009	685,000	9,370,000		10,055,000	10,055,000	5.5%	329.70
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	19.4%	820.24
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72
2012	-	-	-	-	-	0.0%	0.00

* Data is being compiled by departments but unavailable at printing

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

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

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

Town of Los Gatos
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2012

Schedule 10

2011/12 Assessed Valuation:	\$8,369,756,750
Redevelopment Incremental Valuation	\$0 (2)
Adjusted Assessed Valuation:	<u>\$8,369,756,750</u>

DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable	Debt at June 30, 2012	Estimated Share of Direct and Overlapping Debt at June 30, 2012
Overlapping Tax & Assessment Debt			
Santa Clara County	2.795%	\$ 316,800,000	\$ 8,854,560
West Valley-Mission Community College District	10.489%	\$ 210,961,930	\$ 22,127,797
Campbell Union High School District	8.294%	\$ 161,195,000	\$ 13,369,513
Los Gatos-Saratoga Joint Union High School District	29.808%	\$ 51,160,000	\$ 15,249,773
Cambrian School District	0.444%	\$ 18,304,944	\$ 81,274
Campbell Union High School District	8.856%	\$ 148,704,944	\$ 13,169,310
Los Gatos Union School District	66.374%	\$ 94,060,000	\$ 62,431,384
Saratoga Union School District	0.015%	\$ 45,413,558	\$ 6,812
Union School District	20.266%	\$ 70,008,042	\$ 14,187,830
Town of Los Gatos 1915 Act Bonds	100.000%	\$ 260,000	\$ 260,000
Santa Clara Valley Water District Benefit Assessment District	2.795%	\$ 133,440,000	\$ 3,729,648
Total Overlapping Tax and Assessment Debt			\$ 153,467,901
Overlapping General Fund Debt			
Santa Clara County General Fund Obligations	2.795%	\$ 770,947,000	\$ 21,547,969
Santa Clara County Pension Obligations	2.795%	\$ 383,034,822	\$ 10,705,823
Santa Clara County Board of Education Certificates of Participation	2.795%	\$ 11,540,000	\$ 322,543
West Valley-Mission Community College District General Fund Obligations	10.489%	\$ 65,715,000	\$ 6,892,846
Campbell Union High School District General Fund Obligations	8.294%	\$ 12,451,514	\$ 1,032,729
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	29.808%	\$ 9,070,000	\$ 2,703,586
Saratoga Union School District Certificates of Participation	0.015%	\$ 5,830,000	\$ 875
Santa Clara County Vector Control District Certificates of Participation	2.795%	\$ 3,630,000	\$ 101,459
Midpeninsula Regional Open Space Park District General Fund Obligations	4.623%	\$ 138,474,717	\$ 6,401,686
Total Overlapping General Fund Debt			\$ 49,709,515
Total of Overlapping Debt			\$ 203,177,416
Direct Debt			
Town of Los Gatos Certificates of Participation	(2) 100.000%	\$ -	\$ -
Total Direct Debt			\$ -
Total Direct and Overlapping Bonded Debt			\$ 203,177,416

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

(2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the RDA dissolution.

Ratios to 2011/12 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.83%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$23,985,000): 0.32%

Combined Total Debt: 3.03%

State School Building Aid Repayable as of 6/30/12: \$0.00

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 2012/13

Assessed Value	8,107,537,357
Debt limit	1,216,130,604
Debt applicable to limit:	-
Legal Debt Margin	<u>1,216,130,604</u>

	Fiscal Year									
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Debt limit	702,761	788,790	842,159	932,872	1,019,970	1,102,766	1,185,727	1,204,551	1,195,035	1,216,131
Debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>702,761</u>	<u>788,790</u>	<u>842,159</u>	<u>932,872</u>	<u>1,019,970</u>	<u>1,102,766</u>	<u>1,185,727</u>	<u>1,204,551</u>	<u>1,195,035</u>	<u>1,216,131</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)
2003	28,870	1,432,385	49,615	41.89	5,525	9.1%
2004	28,911	1,338,724	46,305	42.52	5,529	6.7%
2005	28,965	1,342,904	46,363	44.04	5,610	5.5%
2006	29,116	1,430,527	49,132	44.19	5,718	4.7%
2007	29,362	1,500,751	51,112	44.64	5,742	4.8%
2008	30,170	1,681,525	55,735	44.86	5,870	6.0%
2009	30,497	1,833,083	60,107	45.35	6,006	11.9%
2010	30,802	1,303,695	42,325	45.09	6,100	11.1%
2011	29,651	1,254,979	42,325	44.22	6,184	8.7%
2012	29,854	1,732,069	58,018	42.64	6,352	7.9%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2010)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) California State Dept of Finance - county per capita at: labormarketinfo.edd.ca.gov
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Major Employers	2005/06		2006/07		2007/08		2008/09		2009/10		2010/11		2011/12	
	Employees	Percentage of Total Town Employment												
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.36%	2,000	13.09%	2,000	12.89%	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%
El Camino Hospital, Los Gatos	-	0.00%	-	0.00%	-	0.00%	800	4.92%	700	4.26%	700	4.41%	700	4.86%
Community Hospital of Los Gatos	730	4.88%	730	4.78%	730	4.70%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Los Gatos Union School District	300	2.00%	300	1.96%	300	1.93%	300	1.85%	300	1.83%	300	1.89%	275	1.91%
Los Gatos-Saratoga High School District	300	2.00%	300	1.96%	300	1.93%	300	1.85%	300	1.83%	300	1.89%	270	1.88%
Netflix	280	1.87%	280	1.83%	280	1.80%	-	0.00%	280	1.70%	800	5.04%	800	5.56%
Safeway	250	1.67%	250	1.64%	250	1.61%	200	1.23%	250	1.52%	250	1.57%	900	6.25%
Alain Pinel Realtors	220	1.47%	220	1.44%	220	1.42%	-	0.00%	220	1.34%	220	1.39%	150	1.04%
Verizon	200	1.34%	200	1.31%	200	1.29%	200	1.23%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.34%	200	1.31%	200	1.29%	200	1.23%	200	1.22%	200	1.26%	200	1.39%
Town of Los Gatos	152	1.02%	152	0.99%	135	0.87%	189	1.16%	152	0.92%	150	0.94%	150	1.04%

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

Schedule 14

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30</u>									
	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
General Government	23.25	23.10	21.35	19.95	20.75	20.50	19.95	18.35	18.90	20.15
Police	73.00	69.00	65.30	62.00	62.00	61.00	61.00	60.00	59.50	60.50
Culture and Recreation	4.25	4.25	4.25	4.25	4.25	5.25	5.25	5.25	3.25	-
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Library	11.25	10.75	11.10	10.35	10.35	10.35	10.35	10.35	8.60	8.60
Planning	19.00	18.60	19.60	18.80	18.80	18.80	18.80	17.80	15.00	16.00
Public Works	44.00	41.00	37.00	37.00	34.00	34.00	37.00	35.00	32.50	32.00
Total	<u>175.75</u>	<u>167.70</u>	<u>159.60</u>	<u>153.35</u>	<u>151.15</u>	<u>150.90</u>	<u>153.35</u>	<u>147.75</u>	<u>138.75</u>	<u>138.25</u>

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

FUNCTION/PROGRAM

	Fiscal Year					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
General government						
Building Permits Issued						
Residential Permits Issued	878	762	676	733	711	747
Residential Permits Value	80,030,698	69,104,606	48,162,274	51,090,808	42,974,043	66,072,341
Commercial Permits Issued	136	127	24	117	128	107
Commercial Permits Value	31,916,848	27,232,018	4,356,307	7,908,146	31,289,431	17,663,124
Publicly Owned Permits Issued			2	11	11	-
Publicly Owned Permits Value			2,308,160	5,732,014	40,000	-
Residential Parking Permits						
Number of Special Event Permits Issued	67	72	76	87	96	89
Number of Annual Permits Issued	492	621	752	686	713	1,223
City Clerk						
Number of Council Resolutions Passed	117	130	143	167	76	59
Number of Ordinances Passed	4	6	13	16	6	13
Number of Contracts Passed	156	221	197	206	218	227
General Services						
Number of Purchase Orders Issued	588	557	396	365	336	318
Police						
Physical Arrests	1,062	1,165	925	831	872	690
Parking Violations	10,136	4,041	11,148	11,512	14,377	12,938
Traffic Violations	1,674	1,714	2,588	3,008	2,718	2,908
DUI Arrests	148	100	88	110	98	89
Library						
Circulated e-audiobooks	1,506	965	1,516	1,852	1,994	3,388
Other Public Works						
Street Resurfacing/Overlay/Reconstruction (miles)	1.7	2.1	3.5	4.7	4.7	8.0
ADA Compliance: Curb Ramps	9	9	9	13	17	19
Traffic Circles	1	1	1	1	1	1
Street Poles	1,575	1,575	1,575	1,605	1,708	1,611
Planning and Development Department						
Building & Safety Inspections Performed	13,376	11,110	10,367	9,055	10,977	11,738
Redevelopment: Number of active projects	2	4	3	3	1	-

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

*

Source: Town of Los Gatos, Finance Department

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

Schedule 16

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

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

Source: Town of Los Gatos, Finance Department

Other Independent Auditor's Reports



**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***

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Los Gatos (the "Town") as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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



objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

C & A LLP

San Jose, California
January 22, 2013