



# TOWN OF LOS GATOS

CALIFORNIA



## Comprehensive Annual Financial Report

Fiscal Year ending June 30, 2018

**Cover Photos: Ravon**

**TOWN OF LOS GATOS  
CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

**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 Gatans voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people and associated 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 30,601. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces.

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



**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**TABLE OF CONTENTS**

---

**INTRODUCTORY SECTION:**

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

**FINANCIAL SECTION:**

<b>Independent Auditor’s Report .....</b>	<b>13</b>
---	-----------

<b>Management’s Discussion and Analysis.....</b>	<b>18</b>
--	-----------

**Basic Financial Statements:**

<b>Government-Wide Financial Statements:</b>	
Statement of Net Position .....	34
Statement of Activities.....	35
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet .....	38
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	39
Statement of Revenues, Expenditures and Changes in Fund Balances.....	40
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	41
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) General Fund .....	42
<b>Proprietary Funds – Internal Service Funds:</b>	
Statement of Net Position.....	44
Statement of Revenue, Expenses and Changes in Net Position.....	45
Statement of Cash Flows .....	46
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position .....	48
Statement of Changes in Fiduciary Net Position .....	49
Notes to the Basic Financial Statements.....	51

**Required Supplementary Information:**

<b>Schedule of Proportionate Share of Net Pension Liability:</b>	
CalPERS Misc. Agent-Multiple Employer Plan .....	92
CalPERS Safety Cost-Sharing Plan.....	93
<b>Schedule of Pension Plans Contributions</b>	
Miscellaneous Agent Multiple-Employer Plan .....	94
Safety Cost-Sharing Plan.....	94
<b>Actuarial Methods and Assumptions used for Pension Actuarially</b>	
Determined Contributions.....	94
Schedule of Changes in Net OPEB Liability and Related Ratios .....	95
Schedule of Employer Contributions .....	95
<b>Actuarial Methods and Assumptions used for 2017/18 OPEB Actuarially</b>	
Determined Contribution .....	96

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**TABLE OF CONTENTS**

---

**SUPPLEMENTARY INFORMATION:**

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

Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP) Appropriated Reserves Fund .....	99
--	----

**Nonmajor Governmental Funds:**

Combining Balance Sheets .....	100
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	102
Budgeted Nonmajor Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP).....	104

**Internal Service Funds:**

Combining Statement of Net Position .....	108
Combining Statement of Revenue, Expenses and Changes in Net Position .....	109
Combining Statement of Cash Flows .....	110

**Private Purpose Trust Funds:**

Combining Statement of Fiduciary Net Position .....	112
Combining Statement of Changes in Fiduciary Net Position.....	113

**STATISTICAL SECTION:**

Net Position by Component .....	118
Changes in Net Position .....	119
Fund Balances, Governmental Funds.....	120
Changes in Fund Balances, Governmental Funds .....	121
Assessed Value and Estimated Actual Value of Taxable Property .....	122
Direct and Overlapping Property Tax Rates.....	123
Principal Property Tax Payers .....	124
Property Tax Levies and Collections.....	125
Ratios of Outstanding Debt by Type .....	126
Direct and Overlapping Governmental Activities Debt.....	127
Legal Debt Margin .....	128
Demographic and Economic Statistics .....	129
Principal Employers.....	130
Full-time Equivalent Town Government Employees by Function/Program .....	131
Operating Indicators by Function/Program .....	132
Capital Assets Statistics by Function/Program.....	133

**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.....	137
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## **INTRODUCTORY SECTION**

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## TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December 24, 2018

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, 2018. This report was prepared by the Finance Department in conjunction with the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2018, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

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

This Comprehensive Annual Financial Report is organized into three sections:

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

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

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

### **THE REPORTING ENTITY AND ITS SERVICES**

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as "Silicon Valley." From the first 100-acre Town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 30,601. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces. 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 and Public Works, Community Development, a Public Library, and Town Administration including Human Resources and Finance.

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

### **ECONOMIC CONDITIONS AND OUTLOOK**

Consistent with other Silicon Valley communities, the economy is strong and economically sensitive revenues, such as Property Tax, Transient Occupancy Tax,

Business License Tax and License and Permit revenues have increased as projected. The Town is seeing early indications of softening in the housing market with homes for sale staying on the market longer than the previous year. However, the value of the home sales remains high. A recent report listed the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) as one of the markets with home prices the furthest above pre-recession peaks nationally at 57 percent.

General Fund revenues (including transfer-ins) increased 8.1% from the prior year. Property tax revenues are a significant source of support for General Fund operations, comprising approximately 39% of General Fund revenues in FY 2017/18. For FY 2017/18 property tax receipts of \$16.0 million were \$1.2 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture and educational opportunities. Based on valuation projections by the Santa Clara County Assessor's Office, Los Gatos property values are anticipated to continue with moderate growth rates for the near term. Property taxes also increased moderately due to a change in property tax distribution methodology due to the dissolution of the California redevelopment agencies. It should be noted that this increase represents a small portion of the total loss of redevelopment tax increment previously collected prior to the aforementioned redevelopment dissolution which occurred in February 2012.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 18.7% of General Fund revenues in FY 2017/18. For FY 2017/18 sales tax receipts of \$7.6 million were \$1.2 million lower than the prior year's collection. Sales tax revenues continue to trend lower due to the negative impact associated with increased online sales versus brick and mortar shopping, decreased gasoline prices during much of the fiscal year and the continued impact of the 2011 business model change of Netflix.

The Town is preparing for an increase in pension employer rates due to changes to economic and demographic actuarial assumptions adopted by CalPERS. To date the Council has adopted additional discretionary pension strategies in excess of \$16.0 million and prefunded \$12.0 million towards OPEB obligations.

While the Town Council has been proactively working to manage the anticipated cost escalation in its pension and other post employment benefits (OPEB), pension and OPEB related obligations continue to be one of the Town's greatest long-term cost drivers. Data from the most recent actuarial valuations show total Net Pension (\$53.2) and OPEB (\$11.1) liabilities of \$64.3 million. For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section. In addition, the Town provides extensive information on pension and OPEB information on the Town's website.

Effective February 1, 2012, redevelopment agencies were dissolved and suspended all activities, with the exception of the implementation of existing contracts and payment

of enforceable obligations entered into prior to February 1, 2012. While the Successor Agency will continue to receive tax increment revenue to pay enforceable obligations, like debt service, funding for administrative services and various program reimbursements has been eliminated.

Despite the reductions to various sources of local government revenue and increasing costs due to unfunded federal and state mandates, the Town has maintained high service levels due to the General Fund's strong fiscal health through FY 2017/18. Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

### **MAJOR INITIATIVES**

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$10 million in Town infrastructure and other capital asset improvements were made in FY 2017/18, including \$3.9 million in street improvement projects including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety Town-wide, \$0.8 million in vehicle and equipment, and approximately \$0.2 million on retaining walls and park improvements. In addition, the Town invested \$5.1 million in various projects that are currently in progress, including approximately \$4.8 million on the Almond Grove Street project, and other facility, park, and infrastructure improvement projects.

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

### **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

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

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

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

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

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

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

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

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

#### **AWARDS**

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

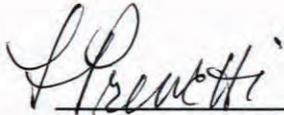
#### **INDEPENDENT AUDIT**

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

**ACKNOWLEDGEMENTS**

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

Respectfully submitted,



\_\_\_\_\_  
Laurel Preveti  
Town Manager

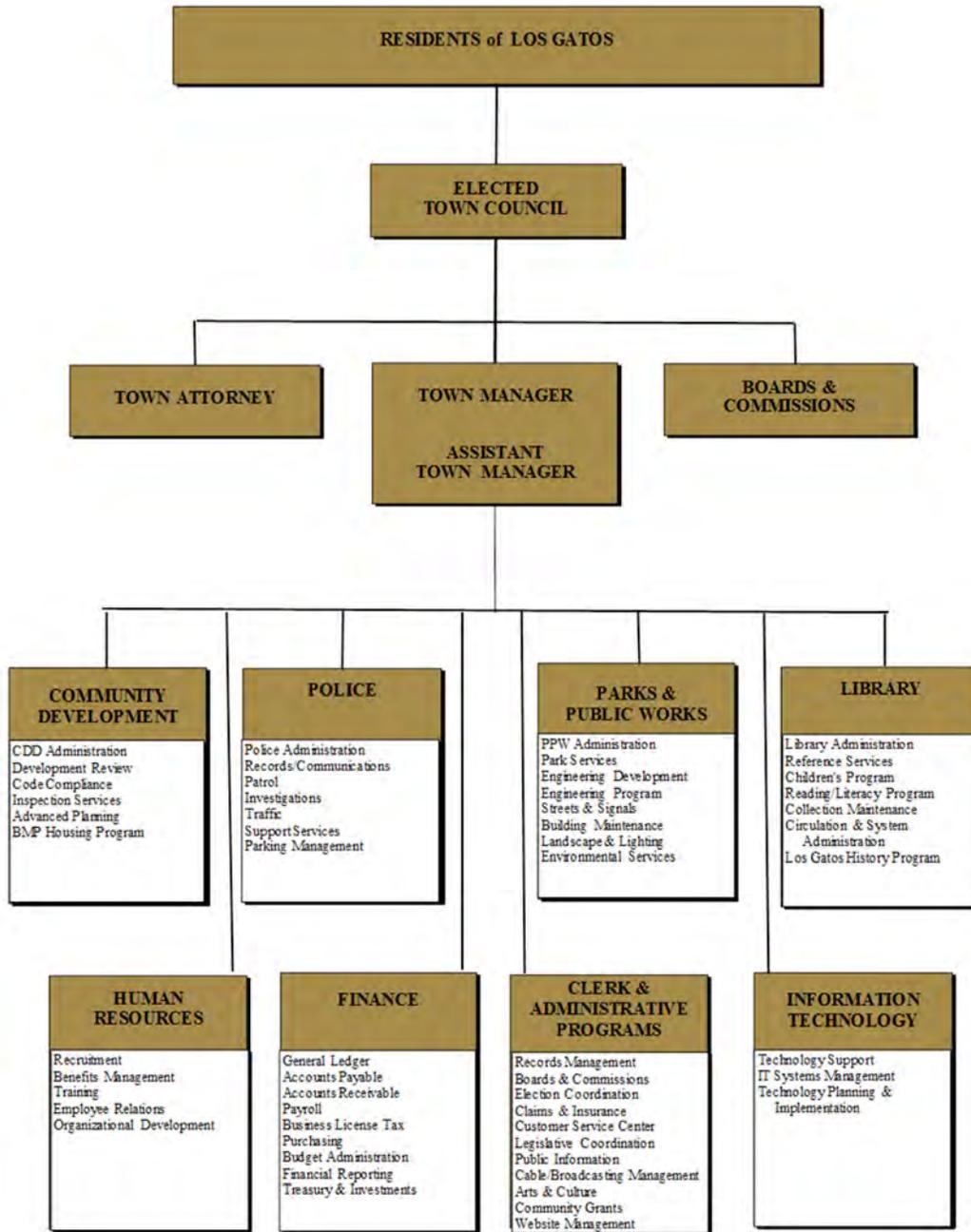


\_\_\_\_\_  
Stephen D. Conway  
Director of Finance



# Town of Los Gatos

## Organizational Structure



**TOWN OF LOS GATOS  
PRINCIPAL OFFICERS  
JUNE 30, 2018**

**TOWN COUNCIL**

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

**COUNCIL APPOINTEES**

Town Manager	Laurel Prevetti
Town Attorney	Robert Schultz

**APPOINTED OFFICIALS**

Assistant Town Manager	Arn Andrews
Chief of Police	Peter Decena
Community Development Director	Joel Paulson
Parks and Public Works Director	Matt Morley
Library Director	Ryan Baker
Finance Director	Stephen Conway
Human Resources Director	Lisa Velasco



Government Finance Officers Association

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**Town of Los Gatos  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information pension related schedules and OPEB related schedules on pages 18-29 and 92-96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Los Gatos, California's basic financial statements. The introductory section, major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

**Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 24, 2018

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for the fiscal year ending June 30, 2018. 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 2017/18 by \$109,262,066 (net position). Of this amount, \$170,590 (unrestricted net position) may be used to meet the Town's ongoing obligations to its community and creditors.
- The Town's net position decreased by \$7.8 million during the fiscal year largely as a result of the beginning FY 2017/18 net position being restated and reduced by approximately \$8.5 million as required by the implementation of GASB 75 regarding the financial reporting of other post-employment benefits (OPEB). Prior to the implementation of GASB 75 the Town was only required to report its Net OPEB Obligation (NOO) in the notes section of its CAFR. With this latest GASB pronouncement the Town's pension and OPEB obligations will now be fully reflected in the financial statements based on the current June 30, 2017 actuarial evaluation.
- Total fund balances for governmental funds at year end were \$49,353,921, a decrease of \$3,797,817 (7%) from the prior year. Fund balances decreased due to General Fund revenues above expenditures of approximately \$1.2 million and a net decrease of \$5.0 million from the other Governmental Funds resulting primarily from the planned use of the GFAR fund balance for infrastructure capital projects.
- During the fiscal year, the Town's General Fund expended \$1.2 million in the newly established Town's IRS Section 115 Pension Trust.
- At the end of FY 2017/18, fund balance for the General Fund was \$30,428,684, approximately 82% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets increased by \$5,833,077 to \$102,098,729 net of depreciation.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

## Government-Wide Financial Statements

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

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

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

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

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

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

## **Fund Financial Statements**

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

*Governmental funds* – The Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s operations. Both the governmental fund balance sheet and 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 tool 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, computer equipment, risk management activities, and other items. The Internal Service funds are 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 51-89 of this report.

### Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$109 million at the end of the current fiscal year.

	2018	2017
Current and other Assets	\$ 77,527,309	\$ 76,851,804
Capital Assets	102,098,729	96,265,652
Total Assets	<u>\$ 179,626,038</u>	<u>\$ 173,117,456</u>
Deferred Outflows - Pension/OPEB	19,177,172	15,666,410
Current Liabilities	19,125,206	15,368,467
Long-Term Liabilities Outstanding	66,492,020	50,630,426
Total Liabilities	<u>\$ 85,617,226</u>	<u>\$ 65,998,893</u>
Deferred Inflows - Pension/OPEB	3,923,918	5,778,114
Net Position		
Net Investment in Capital Assets	102,098,729	96,265,652
Restricted	6,992,747	5,627,707
Unrestricted	170,590	15,134,420
Total Net Position	<u>\$ 109,262,066</u>	<u>\$ 117,027,779</u>

Capital assets represent approximately 57% of the Town's total assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to residents and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, *Net Investment in Capital Assets* increased by \$5,833,077 as a result of approximately \$10 million in capital improvements made during the fiscal year,

offset by \$4.2 million in capital assets depreciation and retirements. Pension and OPEB related deferred outflows increased \$3.5 million from the prior year primarily due to implementation of GASB 75 and assumption changes.

An additional portion of the Town's net position (6.4%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *unrestricted net position* represents approximately 0.2% of the Town's net position at year end.

### Governmental activities

<b>Town of Los Gatos</b>		
<b>Statement of Activities</b>		
<b>For the Year Ended June 30, 2018</b>		
	2018	2017
<b>Revenues:</b>		
Program revenues:		
Charges for Services	\$ 11,982,107	\$ 10,162,547
Operating Grants and Contributions	1,906,224	1,503,108
Capital Grants and Contributions	348,437	779,880
General Revenues:		
Property Taxes	15,958,406	14,756,214
Sales Taxes	7,466,253	8,925,276
Franchise Taxes	2,474,814	2,366,908
Other Taxes	2,667,840	2,351,223
Motor Vehicle in Lieu	16,483	14,056
Investment Earnings	333,120	192,260
Miscellaneous	622,105	528,946
Total Revenues	43,775,789	41,580,418
Expenses:		
Police Department	15,545,521	14,587,597
Parks and Public Works	10,047,003	9,502,707
General Government	9,155,819	6,771,628
Community Development	4,667,609	5,093,459
Library Services	3,087,684	2,868,748
Sanitation	536,296	466,762
Total Expenses	43,039,932	39,290,901
Change in Net Position	735,857	2,289,517
Net Position, beginning	117,027,779	112,514,506
Prior Period Adjustments - GASB 75	(8,501,570)	2,223,756
Net Position, as restated - GASB 75	108,526,209	114,738,262
Net Position, Ending	\$ 109,262,066	\$ 117,027,779

As shown in the schedule above, governmental activities for the year decreased the Town's net position by \$7,765,713. Key elements of the decrease in net position are as follows:

- Property tax revenues collected for the Town accounted for 37% of total Town revenues. Property tax revenues for Town activities increased by \$1.2 million or 8.1%, from FY 2016/17 due primarily to the continued strong economy, the continued strong demand for housing in Los Gatos, and several new developments being added to the tax roll.
- Sales tax revenue of \$7.5 million accounted for approximately 17% of the Town's total revenues for the year. The 16% decrease of approximately \$1.5 million from the prior year collections is largely due to the timing of the final "triple flip" payment and the reclassification of other sales tax revenue to the prior period.
- Other taxes and miscellaneous revenues of \$3.3 million accounted for 7.5% of total revenues, increasing by 14% from the prior year. This increase was primarily the result of the higher amount of Transient Occupancy Tax collected in FY 2017/18 as compared to the prior year.
- Investment earnings of \$602,420 net of amortized premiums increased by \$140,680 from the prior year. This increase is due primarily to the increasing interest rate environment in anticipation of stronger economic growth.
- Total expenditures increased by approximately \$3.7 million from the prior year. This increase was largely due to increased pension expenses and the \$1.2 million contributed to the Town's IRS 115 Pension Trust during FY 2017/18.
- Unrestricted fund balance of \$170,590 as of June 30, 2018 reflecting a \$15 million decrease resulting primarily from the net impacts of the implementation of GASB 75 and net additions to infrastructure in the current fiscal year. For additional information, please refer to Note 1 and Note 10.

#### **FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

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

#### **Governmental funds**

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 2017/18, the Town's governmental funds reported combined ending fund balances of \$49,353,921, a decrease of \$3,797,817 in comparison with the prior year. Fund balances

decrease primarily due to capital expenditures and additional \$1.2 million transfer to the Town IRS 115 Pension Trust Fund.

Approximately 86% or \$42,361,174 of the total amount of governmental fund balances of \$49,353,921 is committed, assigned or unassigned fund balance, which is available for spending subject to Town direction and approval. The remainder of fund balance is restricted therefore not available for new spending but limited as to use for (1) providing for appropriated capital projects (\$6,794,063); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$198,684).

*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 approximately 5% from prior year balances to \$30,428,684. This increase is primarily due to higher than expected receipt of economically sensitive revenues.

#### *Other Major Funds*

*General Fund Appropriated Reserve (GFAR) Capital Projects Fund* - The GFAR fund is used as the primary capital projects fund for the Town and is used for the acquisition and construction of major capital projects in the Town. Fund balance decreased by \$5,800,599 to \$12,301,432. The decrease is primarily due to capital project expenditures made to invest in the Town's infrastructure.

*Other Non-Major Other Governmental Funds* - These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds increased by \$814,551 to \$6,623,805.

#### **Proprietary funds**

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

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

The Equipment Replacement Fund charges replacement costs while the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers

at year end for both funds was \$36,216 and \$80,421 respectively versus \$41,729 and \$101,507 in the prior year. 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 decrease in operating income in the Vehicle Maintenance Fund from the prior year is attributable to increased operating expenses incurred during the fiscal year.

The Facilities Maintenance, Stores, and Information Technology Funds charge premiums based on use and labor charges to provide Town-wide facilities maintenance, mail and office inventory and duplication charges, and information technology services. Net operating income (loss) before transfers at year end was (\$16,693), \$27,353, and (\$94,893) respectively. Expenditures exceeded revenues in the Facilities Maintenance Fund due to increased heating, ventilation and air conditioning maintenance and unscheduled repair costs experienced during the year. Information Technology Fund also experienced increased repair, replacement, and licensing costs. The Office Store expenditures decreased during the current fiscal year due to decreased printing volumes.

The Workers’ Compensation and Self-Insurance Funds charge premiums based on exposure levels by department for liability, property, workers’ compensation and self-insurance costs. Net operating income before transfers at year end was (\$281,528) and \$109,329 respectively, versus (\$123,074) and (\$250,079) in the prior year. The decrease of operating income for the year for Workers’ Compensation Fund reflects the adverse experience of loss claims in the fiscal year as compared to the prior year. The general liability claim payments and settlements were decreased in the current fiscal year.

**GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:**

**Budget Adjustments**

Comparing the FY 2017/18 original budget (or adopted) General Fund Expenditures of \$37,844,035 (excluding budgeted transfers-out and debt payment that get reimbursed) the final budget amount of \$39,374,222 shows a net increase of \$1.5 million. Additions to the original budget included approved encumbrance carry-forwards of \$34,852 and additions of \$1,495,335 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carry-forwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$37,844,035	\$0	\$34,852	\$1,495,335	\$39,374,222

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

- \$1,200,000 increase for transfer to the Town's IRS 115 Pension Trust.
- \$100,350 increase for below market priced housing program for repairs and sale services of 108 Sierra Linda property.
- \$45,000 budget adjustment for additional legal services related to the North 40 lawsuit and preparing the wireless ordinance.
- \$29,115 to align the budget to the revenue that the Town received from an insurance reimbursement to replace Community Emergency Response Team equipment.
- \$22,000 adjustment to improve ergonomic working conditions in Town offices and relocate the Building Division staff offices.
- \$16,000 adjustment to cover non-anticipated tuition reimbursements that are mandated through the approved Memoranda of Understanding (MOU).
- \$9,000 expenditure budget adjustment to fund the replacement of the drinking fountains at Oak Hill Play Lot and Live Oak Manor Park. The existing concrete drinking fountains are in poor condition and are near the end of their useful life.
- \$10,000 for well testing and monitoring required by the County of Santa Clara. Before 1990, an underground oil tank on Town property leaked into the surrounding soil. The Town began cleanup operations but did not complete the ongoing monitoring element. Town staff began testing in FY 2014/15, and as a result, more testing and samples were required by the County. The County has required that this project be closed out.
- \$8,200 increase due to increased cost and activity of mandated utility location services.
- \$7,000 to provide additional training (e.g. Americans with Disability Act compliance) for the Community Development Department.
- \$24,000 combined expenditure budget increase to cover non-anticipated cross-departmental operational expenditures (including membership support for the Safe Routes to School, staff training, park map printing services, and background check for increased hiring).

Comparing the FY 2017/18 final amended budget to the actual result shows \$2.4 million in savings due to operational cost savings primarily from \$1.9 million of salary and benefit savings related to staff vacancies and actual staff costs.

### **Capital Assets**

As of June 30, 2018, the Town's investment in capital assets for its governmental activity is recorded at \$102,098,729 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in

progress and machinery and equipment. During FY 2017/18 the Town’s approximate \$10 million investment in capital assets for the current year represented approximately 5.1% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$5.1 million net increase to Construction in Progress, the majority of that amount (\$4.8 million) expended on the Almond Grove Street Rehabilitation Project.
- \$3.9 million addition to street improvement projects including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety Town-wide.
- \$761K in equipment purchases including approximately \$352K in vehicle fleet replacements, \$169K for a wheel loader, \$100K for skid steer, and approximately \$124K for public safety radio communications upgrade.
- Approximately \$257K expended on building improvements, retaining wall, park improvement, and parking lot improvement projects

**Net Investment in Capital Assets  
Town of Los Gatos  
For the Year Ended June 30, 2018**

	Governmental Activities
Infrastructure	\$ 45,826,289
Buildings	22,414,082
Land	20,333,684
Equipment	2,960,020
Construction in Progress	10,564,654
	\$ 102,098,729

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

**Economic Factors and Next Year’s Budgets and Rates**

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

During the development and adoption of the Town’s FY 2018/19 budget, the Town Council and management considered the following factors:

- The Town continues to focus on priority issues that involve maintaining public safety and Town infrastructure including streets and parks; and providing library, community development, and other services. These priorities are coordinated with other Core Goals that protect the Town’s fiscal health and ensure cost efficient and effective delivery of Town-wide administrative services. The Town’s proactive approach to reducing operating expenditures, identifying revenue enhancements, and implementing operating efficiencies has been an effective fiscal approach.
- Reflecting the strength of the local economy, the FY 2018/19 operating budget is a balanced budget, with use of General Fund reserves dedicated for one-time uses. The FY 2018/19 Budget maintains existing service levels while recommending modest additions in strategically important areas. This budget incorporates investments toward future equipment replacement, additional annual discretionary pension payments, and increased capacity for the Town’s burgeoning technology infrastructure. The FY 2018/19 budget has been balanced largely due to revenue enhancements, resulting from the positive economy and the Town’s growth in the economically sensitive revenue sources such as Property Tax, Transient Occupancy Tax, and Business Licenses. In regard to expenditures, the Town’s employer-paid benefits are expected to increase for the foreseeable future, including obligated pension contributions, the pre-funding of premiums for retiree health coverage, and the increasing costs of current health plans. Specific trends affecting the fund balance forecast include:
  - General property tax collections represent approximately 28.9% (not including the State’s property tax “backfill” shifts) of the Town’s General Fund revenues. Property tax collections are expected to increase 4% in FY 18/19 from the prior year’s tax collections. This forecast is based on data from the Santa Clara County Tax Assessor’s Office.
  - The Town anticipates a decrease in general sales tax for FY 2018/19. Sales tax estimates of \$7.7 million for FY 2018/19 were budgeted reflecting a 2.9% decrease from the prior year’s adopted sales tax budget. The negative impact is associated with increased on-line sales versus brick and mortar shopping, decreased gasoline prices, and by the continuing impact of the 2011 business model change of Netflix. In addition, at the November 6, 2018 election the Town of Los Gatos residents approved a ballot measure enacting a one-eighth cent (\$0.125%) sales tax for 20 years, providing about \$800,000 annually, requiring Independent Citizens Oversight with public review of spending, and all revenues controlled locally. The Sales tax Measure will be effective starting April 1, 2019. Staff will incorporate the new sales tax figures in the FY 2019/20 budget.
  - The Town’s investment portfolio experienced a slight increase in its overall weighted average annual yield, rising from 1.25% at June 30, 2017 to 1.73% at June 30, 2018. Anticipating increasing interest rates for FY 2018/19 coupled with

reduced cash balances due to capital expenditures, investment earnings are expected to remain at the same level as the prior fiscal year.

- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2018/19 as personal and business related travel is expected to remain strong.
- The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and unfavorable demographic shifts which have outweighed any positive plan experiences. To address this unfunded status, the Town took proactive steps including initiating the prefunding of OPEB obligations, budgeting additional discretionary pension payments to accelerate reduction of unfunded liabilities, and most recently partnering with the Town's employee groups to eliminate the existing retiree healthcare benefit for new employees. Even with these proactive steps, the Town continues to be impacted by the continuing rising cost of pension related benefits. Over the next five fiscal years, the Town's five year plan includes increasing pension costs due to further changes in actuarial assumptions or lowering the discount rate. The Town's net pension liability is \$22,415,954 for the safety cost sharing plan and \$30,788,554 for the miscellaneous plan based upon data from the CalPERS June 30, 2017 Actuarial Valuations. For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section.

### **Requests for Information**

This financial report is designed to provide residents, 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. Questions about this report or requests for any additional information, should be directed to Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030, or phone (408) 354-6828.

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## **Basic Financial Statements**

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**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 73,938,079
Restricted cash and investments	37,229
Receivables:	
Accounts	1,432,662
Interest	231,743
Intergovernmental	1,621,833
Materials, supplies and deposits	28,011
Long term notes receivables	237,752
Capital Assets:	
Nondepreciable	30,898,338
Depreciable, net of accumulated depreciation	71,200,391
Total Assets	<u>179,626,038</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension contributions subsequent to measurement date	4,620,844
Pension related amounts	11,621,015
OPEB contributions subsequent to measurement date	2,935,313
Total Deferred Outflows of Resources	<u>19,177,172</u>
<b>LIABILITIES</b>	
Accounts payable	4,395,611
Accrued payroll and benefits	1,463,684
Due to other governments	25,945
Unearned Revenue	4,491,047
Deposits	6,822,127
Claims payable	1,604,067
Long-term liabilities:	
Due within one year:	
Compensated absences	322,725
Due in more than one year:	
Net OPEB liability	11,165,000
Net pension liabilities	53,204,508
Compensated absences	2,122,512
Total Liabilities	<u>85,617,226</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related amounts	3,622,918
OPEB related amounts	301,000
Total Deferred Inflows of Resources	<u>3,923,918</u>
<b>NET POSITION</b>	
Net investment in capital assets	102,098,729
Restricted for:	
Capital projects	6,794,063
Lighting and landscape repairs and maintenance	198,684
Total Restricted Net Position	6,992,747
Unrestricted	170,590
Total Net Position	<u>\$ 109,262,066</u>

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

**TOWN OF LOS GATOS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
General government	\$ 9,155,819	\$ 1,701,146	\$ -	\$ -	\$ (7,454,673)
Public safety	15,545,521	1,888,359	895,730	-	(12,761,432)
Parks and public works	10,047,003	4,150,068	953,294	348,437	(4,595,204)
Community development	4,667,609	3,456,390	-	-	(1,211,219)
Library services	3,087,684	14,702	57,200	-	(3,015,782)
Sanitation	536,296	771,442	-	-	235,146
<b>Total Governmental Activities</b>	<b>\$ 43,039,932</b>	<b>\$ 11,982,107</b>	<b>\$ 1,906,224</b>	<b>\$ 348,437</b>	<b>(28,803,164)</b>
<b>General revenues:</b>					
Taxes:					
Property taxes					15,958,406
Sales taxes					7,466,253
Franchise taxes					2,474,814
Other taxes					2,667,840
Motor vehicle in lieu					16,483
Investment earnings					333,120
Miscellaneous					622,105
<b>Total general revenues</b>					<b>29,539,021</b>
Change in Net Position					735,857
Net Position - Beginning, as restated					108,526,209
Net Position - Ending					<b>\$ 109,262,066</b>

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

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**TOWN OF LOS GATOS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**FUND FINANCIAL STATEMENTS &**  
**MAJOR GOVERNMENTAL FUNDS**

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***Fund Financial Statements***

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

***Major Governmental Funds:***

The Town determined that the following funds were major funds for the year ended June 30, 2018. Individual non-major funds can be found in the supplemental section.

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

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

**TOWN OF LOS GATOS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & Investments	\$ 37,907,933	\$ 18,042,657	\$ 7,239,621	\$ 63,190,211
Receivables:				
Accounts	1,096,925	52,579	145,406	1,294,910
Interest	231,743	-	-	231,743
Intergovernmental	1,496,784	-	125,050	1,621,834
Due from Other Funds	68,569	-	-	68,569
Long term notes	159,000	-	78,752	237,752
<b>Total Assets</b>	<b>\$ 40,960,954</b>	<b>\$ 18,095,236</b>	<b>\$ 7,588,829</b>	<b>\$ 66,645,019</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 786,001	\$ 2,518,749	\$ 827,718	\$ 4,132,468
Accrued Payroll and Benefits	1,424,228	-	3,882	1,428,110
Due to other governments	25,992	-	-	25,992
Unearned revenue	1,151,197	3,275,055	64,855	4,491,107
Deposits	6,822,127	-	-	6,822,127
Due to Other Funds	-	-	68,569	68,569
Compensated Absences	322,725	-	-	322,725
<b>Total Liabilities</b>	<b>10,532,270</b>	<b>5,793,804</b>	<b>965,024</b>	<b>17,291,098</b>
<b>FUND BALANCE</b>				
Restricted for:				
Capital Outlay	-	606,933	6,187,130	6,794,063
Repairs and Maintenance	-	-	198,684	198,684
Committed to:				
Budget Stabilization	5,037,243	-	-	5,037,243
Catastrophic	5,037,243	-	-	5,037,243
CalPERS/OPEB	2,878,913	-	-	2,878,913
Almond Grove Street Project	-	5,571,087	-	5,571,087
Assigned to:				
Open Space	562,000	-	-	562,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Strategic Planning	129,090	-	-	129,090
Capital Projects	14,421,203	4,613,202	-	19,034,405
Carryover Encumbrances	99,927	-	-	99,927
Comcast PEG	-	50,000	-	50,000
Compensated Absences	2,122,512	-	-	2,122,512
Special Revenue Funds	-	-	237,991	237,991
<b>Total Fund Balances</b>	<b>30,428,684</b>	<b>12,301,432</b>	<b>6,623,805</b>	<b>49,353,921</b>
<b>Total Liabilities, Deferred Inflow of Resources and Fund Balances</b>	<b>\$ 40,960,954</b>	<b>\$ 18,095,236</b>	<b>\$ 7,588,829</b>	<b>\$ 66,645,019</b>

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

**TOWN OF LOS GATOS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**THE GOVERNMENT-WIDE STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2018**

<b>Fund Balance - Total Governmental Funds</b>	\$	49,353,921
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:		
<b>CAPITAL ASSETS</b>		
Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.		102,098,179
<b>ALLOCATION OF INTERNAL SERVICE FUND NET POSITION</b>		
Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position.		6,841,647
<b>DEFERED OUTFLOWS OF RESOURCES</b>		
Contributions and similar items will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.		15,653,577
<b>DEFERRED INFLOWS OF RESOURCES</b>		
The difference between projections and actual results in pension plans is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position.		(3,576,458)
<b>DEFERED OUTFLOWS OF RESOURCES</b>		
Contributions and similar items will not be included in the calculation of the City's net OPEB liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.		2,935,313
<b>DEFERRED INFLOWS OF RESOURCES</b>		
The difference between projections and actual results in OPEB plans is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position.		(301,000)
<b>LONG-TERM LIABILITIES</b>		
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.		
Net Pension Liability	\$	(50,455,601)
Net OPEB Liability		(11,165,000)
Compensated absences		(2,122,512)
		(63,743,113)
<b>Net Position - Governmental Activities</b>	<b>\$</b>	<b>109,262,066</b>

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

**TOWN OF LOS GATOS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 15,958,406	\$ -	\$ 34,574	\$ 15,992,980
Sales Taxes	7,592,206	-	-	7,592,206
Other Taxes	2,636,002	-	31,838	2,667,840
Licenses & Permits	4,697,560	204,391	1,035,093	5,937,044
Intergovernmental	1,010,166	261,534	853,203	2,124,903
Charges for Services	4,625,136	424,556	345,365	5,395,057
Fines and Forfeitures	676,212	-	-	676,212
Franchise Fees	2,474,814	-	-	2,474,814
Interest	244,762	31,945	56,231	332,938
Use of Property	32,206	-	-	32,206
Other	581,946	58,898	-	640,844
<b>Total Revenues</b>	<b>40,529,416</b>	<b>981,324</b>	<b>2,356,304</b>	<b>43,867,044</b>
<b>EXPENDITURES</b>				
Current:				
General Government	8,770,082	-	-	8,770,082
Public Safety	14,423,554	-	-	14,423,554
Parks and Public Works	7,099,527	-	26,159	7,125,686
Community Development	4,192,165	-	-	4,192,165
Library Services	2,529,017	-	-	2,529,017
Sanitation and Other	-	-	521,147	521,147
Capital Outlay	-	8,894,531	883,527	9,778,058
<b>Total Expenditures</b>	<b>37,014,345</b>	<b>8,894,531</b>	<b>1,430,833</b>	<b>47,339,709</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,515,071</b>	<b>(7,913,207)</b>	<b>925,471</b>	<b>(3,472,665)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sales of assets	378,219	-	-	378,219
Transfers in	538,536	2,638,224	-	3,176,760
Transfers (out)	(3,243,595)	(525,616)	(110,920)	(3,880,131)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,326,840)</b>	<b>2,112,608</b>	<b>(110,920)</b>	<b>(325,152)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>1,188,231</b>	<b>(5,800,599)</b>	<b>814,551</b>	<b>(3,797,817)</b>
<b>BEGINNING FUND BALANCES, AS RESTATED</b>	<b>29,240,453</b>	<b>18,102,031</b>	<b>5,809,254</b>	<b>53,151,738</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 30,428,684</b>	<b>\$ 12,301,432</b>	<b>\$ 6,623,805</b>	<b>\$ 49,353,921</b>

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

**TOWN OF LOS GATOS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES TO**  
**THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2018**

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**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (3,797,817)

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

**CAPITAL ASSET TRANSACTIONS**

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

Expenditures for capital assets (additions)	\$ 9,864,158	
Proceeds from sale of assets	(378,219)	
Gain on sale of assets	34,698	
Current Year Depreciation	<u>(3,686,603)</u>	5,834,034

**OPEB PLAN CONTRIBUTIONS AND EXPENSE**

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

317,658

**PENSION PLAN CONTRIBUTIONS AND EXPENSE**

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

(2,983,954)

**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.

563,576

**PENSION PLAN CONTRIBUTIONS AND EXPENSE**

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

928,313

**UNAVAILABLE REVENUE IN GOVERNMENTAL FUNDS**

In governmental funds, certain revenues that were not available in prior year, were deferred on the governmental funds in prior year and are recognized as revenue in the current fiscal year. However, those revenues were recognized in the Government-Wide Statement of Activities in prior year

(125,953)

**CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES**

\$ 735,857

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

**TOWN OF LOS GATOS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 14,652,443	\$ 15,370,934	\$ 15,958,406	\$ 587,472
Sales Taxes	7,972,195	7,681,546	7,592,206	(89,340)
Other Taxes	2,067,000	2,257,000	2,636,002	379,002
Franchise Fees	2,287,390	2,317,390	2,474,814	157,424
Licenses & Permits	4,483,829	4,558,829	4,697,560	138,731
Intergovernmental	716,081	738,281	1,010,166	271,885
Charges for Services	3,138,297	3,288,645	4,625,136	1,336,491
Fines and Forfeitures	695,400	695,400	676,212	(19,188)
Interest	270,723	270,723	244,762	(25,961)
Use of Property	31,959	31,959	32,206	247
Other	554,711	392,153	581,946	189,793
Total Revenues	<u>36,870,028</u>	<u>37,602,860</u>	<u>40,529,416</u>	<u>2,926,556</u>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Town Council	205,092	205,092	192,183	12,909
Town Attorney	353,383	426,466	354,205	72,261
Administrative Services	3,562,823	3,580,561	3,193,995	386,566
Non-Departmental	3,992,490	5,148,232	5,029,699	118,533
Total General Government	<u>8,113,788</u>	<u>9,360,351</u>	<u>8,770,082</u>	<u>590,269</u>
Public Safety	15,455,232	15,505,674	14,423,554	1,082,120
Community Development	4,376,673	4,520,505	4,192,165	328,340
Parks & Public Works	7,117,324	7,184,147	7,099,527	84,620
Library Services	2,781,018	2,803,545	2,529,017	274,528
Total Expenditures	<u>37,844,035</u>	<u>39,374,222</u>	<u>37,014,345</u>	<u>2,359,877</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<u>(974,007)</u>	<u>(1,771,362)</u>	<u>3,515,071</u>	<u>5,286,433</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	1,000	1,000	378,219	377,219
Transfers In	538,536	538,536	538,536	-
Transfers Out	(3,082,227)	(3,243,595)	(3,243,595)	-
Total Other Financing Sources (Uses)	<u>(2,543,691)</u>	<u>(2,705,059)</u>	<u>(2,326,840)</u>	<u>377,219</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>\$ (3,517,698)</u>	<u>\$ (4,476,421)</u>	<u>1,188,231</u>	<u>\$ 5,663,652</u>
<b>BEGINNING FUND BALANCE</b>			<u>29,240,453</u>	
<b>ENDING FUND BALANCE</b>			<u>\$ 30,428,684</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, 2018**

**PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS**

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

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

**TOWN OF LOS GATOS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2018**

	<b>Governmental Activities Internal Service Funds</b>
<b>ASSETS</b>	
Current Assets:	
Cash & investments	\$ 10,747,866
Restricted cash & investments	37,229
Accounts Receivable	137,813
Materials, supplies, and deposits	28,011
Total current assets	10,950,919
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	558
Total Assets	10,951,477
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Plan Contributions	238,311
Pension related amounts	349,971
Pension contributions	588,282
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	263,152
Accrued payroll and benefits	35,526
Total current liabilities	298,678
Noncurrent liabilities:	
Claims payable	1,604,067
Net pension liabilities	2,748,907
Total noncurrent liabilities	4,352,974
Total Liabilities	4,651,652
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related amounts	46,460
	46,460
<b>NET POSITION</b>	
Net Investment in capital assets	558
Restricted for workers compensation claims	37,229
Unrestricted	6,803,860
Total Net Position	\$ 6,841,647

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

**TOWN OF LOS GATOS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN NET POSITION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<b>Governmental Activities Internal Service Funds</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 5,042,430
Interest	5
Use of money and property	221,761
Other local taxes	31,838
Other	364,171
	5,660,205
<b>OPERATING EXPENSES</b>	
Salaries and related expenses	1,585,094
Insurance expenses	725,283
Depreciation	957
Services and Supplies	3,488,666
	5,800,000
Operating Income	(139,795)
Transfers in (Note 4)	703,371
Net transfers	703,371
Change in Net Position	563,576
<b>BEGINNING NET POSITION</b>	6,278,071
<b>ENDING NET POSITION</b>	\$ 6,841,647

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

**TOWN OF LOS GATOS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<b>Governmental Activities Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 5,568,072
Payments to suppliers	(3,453,927)
Payments to employees	(1,371,843)
Claims paid	(469,607)
	272,695
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers Out	703,371
	703,371
Net Increase(Decrease) in Cash and Investments	976,066
Cash and investments - beginning of year	9,809,029
Cash and investments - end of year	\$ 10,785,095
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ (139,795)
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	957
Change in assets and liabilities:	
Receivables, net	(92,133)
Material and supplies	(2,991)
Deferred outflows of resources	(60,225)
Net pension liabilities	258,452
Deferred inflows of resources	19,950
Accounts payable	37,897
Accrued payroll and benefits	(4,926)
Claims payable	255,676
Due to other government	(167)
Cash Flows From Operating Activities	\$ 272,695

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, 2018**

**FIDUCIARY FUNDS**

---

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

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

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

**TOWN OF LOS GATOS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

	<b>Total Private Purpose Trust Funds</b>	<b>Pension Trust Fund</b>
<b>ASSETS</b>		
Cash and investments (Note 2)	\$ 2,199,020	\$ -
Restricted cash and investments (Note 2)	1,985,864	1,206,851
Accounts receivable	38,500	
Loans receivable (Note 3)	563,761	-
Capital assets (Note 5):		
Nondepreciable	5,257,422	-
Depreciable, net of accumulated depreciation	1,627,084	-
<b>Total Assets</b>	<b>11,671,651</b>	<b>1,206,851</b>
<b>LIABILITIES</b>		
Accounts payable	11,380	-
Due to other governments (Note 13)	189	-
Interest payable	326,266	-
Long-term debt (Note 6):		
Due within one year	1,150,000	-
Due in more than one year	16,981,855	-
<b>Total Liabilities</b>	<b>18,469,690</b>	<b>-</b>
<b>NET POSITION</b>		
Held in trust	(6,798,039)	1,206,851
<b>Total Net Position</b>	<b>\$ (6,798,039)</b>	<b>\$ 1,206,851</b>

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

**TOWN OF LOS GATOS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<b>Total Private Purpose Trust Funds</b>	<b>Pension Trust Fund</b>
<b>ADDITIONS</b>		
Property taxes	\$ 1,958,325	\$ -
Investment earnings	29,512	7,228
Contributions	-	1,200,000
Gifts, bequests and endowments	74,315	-
Other	1,914,739	-
Total Additions	<u>3,976,891</u>	<u>1,207,228</u>
<b>DEDUCTIONS</b>		
Program expenses of former RDA	1,927,753	-
Interest and fiscal agency expenses of RDA	749,832	-
Library services	77,252	-
Trust administration expenses	-	377
Depreciation expense	101,693	-
Total Deductions	<u>2,856,530</u>	<u>377</u>
<b>CHANGE IN NET POSITION</b>	1,120,361	1,206,851
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>(7,918,400)</u>	-
<b>NET POSITION - END OF YEAR</b>	<u>\$ (6,798,039)</u>	<u>\$ 1,206,851</u>

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

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## **Notes to Basic Financial Statements**

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Financial Reporting Entity**

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

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town's population as of January 1, 2018 was 30,601.

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

**B. Description of Blended Component Units**

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

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

As described in Note 11, the Town participates in two joint ventures and public entity risk pool activities through formally organized separate legal entities. The financial activities of the Association of Bay Area Governments 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 are separate from and independent of the Town administration.

**D. Basis of Presentation**

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

**E. Major Funds**

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

The Town also reports the following fund types:

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

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

**Pension Trust Fund** accounts for the assets accumulated for the purpose of funding future increases in pension contribution

**F. Basis of Accounting**

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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 *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

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

**Other Postemployment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

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

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

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

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

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

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

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

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

Beginning Balance	\$	2,519,931
Addition		862,015
Payments		(936,707)
Ending Balance	\$	<u>2,445,239</u>
Compensated Absences Current Portion	\$	<u>322,725</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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

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

**Unassigned** includes fund balances within the funds which have not been classified within the above mentioned categories. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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

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

**Subsequent Events** - Management has considered subsequent events through December 24, 2018, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure other than described in Note 15.

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

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

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

**Excess of Expenditures over Appropriations** - There were no significant expenditures in excess of budget during for the year ended June 30, 2018.

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

**G. Accounting and Reporting Changes**

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The Town restated its beginning net position as part of implementation of this statement.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the Town for the current fiscal year.
- GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement did not apply to the Town for the current fiscal year.

**NOTE 2 - CASH AND INVESTMENTS**

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 2 - CASH AND INVESTMENTS, CONTINUED**

**Cash Deposits with Banks and Custodial Credit Risk** - California Law requires banks and savings and loan institutions to pledge government securities with a fair value of 110% of the Town's cash on deposit, first trust deed mortgage notes with a value of 150% of the deposit, or letters of credit issued by the Federal Home Loan Bank of San Francisco with a value of 100% of the deposit as collateral. 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's cash deposits are collateralized under this law.

The bank balance of the Town's cash deposits was \$19,398,300 and the book balance was \$18,948,901 as of June 30, 2018. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

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

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

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

**Local Agency Investment Fund (LAIF)** - The Town invests in the California State Treasurer's Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and is under the day to day administration of the State Treasurer. As of June 30, 2018, LAIF had approximately \$22.5 billion in investments. Of that amount, 97.33% is invested in non-derivative financial products and 2.67% in structured notes and asset-backed securities. These investments are described as follows:

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 2 - CASH AND INVESTMENTS, CONTINUED**

**Risk Disclosures**

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

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

*Custodial Credit Risk* is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's money market fund and investment in LAIF are 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, 2018.

The following table summarizes the Town's policy related to maturities and concentration of investments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Portfolio Percentage</u>
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	30%
Commercial Paper	270 days	25%
Medium Term Notes	5 years	30%
Collateralized CD's	5 years	30%
CA LAIF	N/A	65m
Money Market Funds	N/A	20%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 - CASH AND INVESTMENTS, CONTINUED**

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2018:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Concentration of Credit Risk	Minimum Rating	Input level	Time to Mature (Years)	Weighted Average Maturity
US Treasury Securities	\$ 6,627,355	\$ -	\$ 6,627,355	11.59%	Aaa	1	0-2	1.11 years
US Instrumentality Security	29,663,273	-	29,663,273	51.89%	Aaa	2	0-2	1.16 years
Corporate Securities	14,409,372	-	14,409,372	25.21%	A1	2	1-2	1.26 years
Government Securities Money Market Mutual funds	183,203	-	183,203	0.32%	Not Rated	2	n/a	n/a
LAIF	6,282,764	-	6,282,764	10.99%	Not Rated	n/a	n/a	n/a
<b>Total investments</b>	<b>57,165,967</b>	<b>-</b>	<b>57,165,967</b>	<b>100.00%</b>				
Cash Deposit with Banks	18,948,901	37,230	18,986,131					
Money Market Accounts	17,381	1,985,863	2,003,244					
Investment held in pension trust		1,206,851	1,206,851					
Cash on hand at Town	4,850	-	4,850					
<b>Town Cash and Investments</b>	<b>\$ 76,137,099</b>	<b>\$ 3,229,944</b>	<b>\$ 79,367,043</b>					

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

	Total Town	Fiduciary Funds	Total
Cash and Investments available for operations	\$ 73,938,079	\$ 2,199,020	\$ 76,137,099
Restricted cash and investments	37,229	3,192,715	3,229,944
<b>Total cash and investments</b>	<b>\$ 73,975,308</b>	<b>\$ 5,391,735</b>	<b>\$ 79,367,043</b>

**NOTE 3 - LONG-TERM NOTES RECEIVABLE**

The Town had the following long-term notes receivable as of June 30, 2018:

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 3 - LONG-TERM NOTES RECEIVABLE, CONTINUED**

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

**Project Match** - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four- or five-bedroom single-family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2018, no interest or principal payments have been made.

**NOTE 4 - INTERFUND TRANSACTIONS**

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

**Transfers** - With Council approval resources may be transferred from one fund to another. Transfers 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, 2018 were as follows:

	Transfer In	Transfer Out	
General Fund	\$ 538,536	\$ 3,243,595	
Appropriated Reserve Fund	2,638,224	525,616	
Non-major Gov't Funds	-	110,920	
Internal Service Funds	703,371	-	
Total Transfers	\$ 3,880,131	\$ 3,880,131	

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 - CAPITAL ASSETS**

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

	<u>Balance at June 30, 2017</u>	<u>Adjustments and Additions</u>	<u>Transfers and Retirements</u>	<u>Balance at June 30, 2018</u>
Capital Assets not being Depreciated				
Land	\$ 20,333,684	\$ -	\$ -	\$ 20,333,684
Construction in Progress	<u>5,629,017</u>	<u>5,056,379</u>	<u>(120,742)</u>	<u>10,564,654</u>
Total Capital Assets not being Depreciated	<u>25,962,701</u>	<u>5,056,379</u>	<u>(120,742)</u>	<u>30,898,338</u>
Capital Assets being Depreciated				
Buildings and Improvements	30,039,607	12,168	(360,830)	29,690,945
Equipment & Vehicle	10,889,173	761,239	(230,407)	11,420,005
Infrastructure - All Other	22,473,084	245,365	-	22,718,449
Infrastructure - Streets	<u>56,756,057</u>	<u>3,909,749</u>	<u>-</u>	<u>60,665,806</u>
Total Capital Assets being Depreciated	<u>120,157,921</u>	<u>4,928,521</u>	<u>(591,237)</u>	<u>124,495,205</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,779,398	517,010	(19,545)	7,276,863
Equipment & Vehicle	7,947,752	740,403	(228,170)	8,459,985
Infrastructure - All Other	4,991,945	742,494	-	5,734,439
Infrastructure - Streets	<u>30,135,875</u>	<u>1,687,652</u>	<u>-</u>	<u>31,823,527</u>
Total accumulated depreciation	<u>49,854,970</u>	<u>3,687,559</u>	<u>(247,715)</u>	<u>53,294,814</u>
Net Capital Assets being Depreciated	<u>70,302,951</u>	<u>1,240,962</u>	<u>(343,522)</u>	<u>71,200,391</u>
<b>Governmental Activity Capital Assets, Net</b>	<u>\$ 96,265,652</u>	<u>\$ 6,297,341</u>	<u>\$ (464,264)</u>	<u>\$ 102,098,729</u>

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

<u>Governmental Activities</u>	<u>Depreciation Expense</u>
General Government	\$ 185,602
Public Safety	425,383
Parks & Public Works	2,551,682
Community Services	49,726
Library	391,339
Sanitation	<u>83,827</u>
Total Governmental Activities	<u>\$ 3,687,559</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 - CAPITAL ASSETS, CONTINUED**

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

	<u>Balance at June 30, 2017</u>	<u>Adjustments and Additions</u>	<u>Transfers and Retirements</u>	<u>Balance at June 30, 2018</u>
Capital Assets not being Depreciated				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total Capital Assets not being Depreciated	<u>5,257,422</u>	<u>-</u>	<u>-</u>	<u>5,257,422</u>
Capital Assets being Depreciated				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total Capital Assets being Depreciated	<u>4,067,708</u>	<u>-</u>	<u>-</u>	<u>4,067,708</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,338,931	101,693	-	2,440,624
Total accumulated depreciation	<u>2,338,931</u>	<u>101,693</u>	<u>-</u>	<u>2,440,624</u>
Net Capital Assets being Depreciated	<u>1,728,777</u>	<u>(101,693)</u>	<u>-</u>	<u>1,627,084</u>
<b>Successor Agency Capital Assets, Net</b>	<u>\$ 6,986,199</u>	<u>\$ (101,693)</u>	<u>\$ -</u>	<u>\$ 6,884,506</u>

**NOTE 6 - LONG-TERM OBLIGATIONS**

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2018:

Long Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletion	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5 -5%	8/1/2031	\$10,725,000	\$ 7,115,000	\$ 335,000	\$ 6,780,000	\$ 350,000	\$ 6,430,000
2010 COP	2.5 - 4.25%	8/1/2028	15,675,000	11,670,000	770,000	10,900,000	800,000	10,100,000
Subtotal COP			26,400,000	18,785,000	1,105,000	17,680,000	1,150,000	16,530,000
Premiums			735,095	489,510	37,655	451,855	-	451,855
Total Long-Term Debt			<u>\$27,135,095</u>	<u>\$19,274,510</u>	<u>\$ 1,142,655</u>	<u>\$18,131,855</u>	<u>\$ 1,150,000</u>	<u>\$16,981,855</u>

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED**

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

Future debt service requirements of the 2002 and 2010 Certificates of Participation are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2019	1,150,000	759,073	1,909,073
2020	1,195,000	710,024	1,905,024
2021	1,250,000	658,494	1,908,494
2022	1,300,000	599,850	1,899,850
2023	1,355,000	538,713	1,893,713
2024-2028	7,780,000	1,742,894	9,522,894
2029-2032	3,650,000	275,656	3,925,656
Total COP Debt Service	<u>\$ 17,680,000</u>	<u>\$ 5,284,704</u>	<u>\$ 22,964,704</u>

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs' debt agreements. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the debt agreements and totaled \$1,985,862 as of June 30, 2018. The California Government Code requires these funds to be invested in accordance with Town ordinances, 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. There was no non-obligated debt outstanding as of June 30, 2018.

**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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 - FUND BALANCES, CONTINUED**

As of June 30, 2018, fund balances were classified as follows:

	Beginning Balance	Adjusments	Adjusted Beginning Balance	Additions	Deletions	Ending Balance
<b>Restricted for</b>						
Capital Outlay	\$ 5,428,064	-	5,428,064	1,365,999	-	\$ 6,794,063
Repairs and Maintenance	199,643	-	199,643	-	959	198,684
<b>Committed to:</b>						
Budget Stabilization	4,969,847	-	4,969,847	67,396	-	5,037,243
Catastrophic	4,969,847	-	4,969,847	67,396	-	5,037,243
CalPERS/OPEB Reserve	3,388,913	-	3,388,913	690,000	1,200,000	2,878,913
Almond Grove Street Project	12,155,902	-	12,155,902	-	6,584,815	5,571,087
<b>Assigned to:</b>						
Open Space	562,000	-	562,000	-	-	562,000
Parking	1,460,210	-	1,460,210	-	-	1,460,210
Sustainability	140,553	-	140,553	-	-	140,553
Strategic Planning	2,600,000	-	2,600,000	-	2,470,910	129,090
Capital Projects	14,510,361	-	14,510,361	4,524,044	-	19,034,405
Carryover Encumbrances	34,852	-	34,852	65,075	-	99,927
Comcast PEG	50,000	-	50,000	-	-	50,000
Compensated Absences	2,440,170	-	2,440,170	-	317,658	2,122,512
Special Revenue Fund	181,547	-	181,547	56,444	-	237,991
<b>Unassigned</b>	-	59,829	59,829	-	59,829	-
Total Fund Balance - All Governmental Funds	<u>\$53,091,909</u>	<u>59,829</u>	<u>53,151,738</u>	<u>5,470,355</u>	<u>10,633,212</u>	<u>\$49,353,921</u>

**Restricted**

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 8 - FUND BALANCES, CONTINUED**

**Committed**

Stabilization Arrangements

The Town Council has established by resolution the budget stabilization arrangement and the catastrophe arrangement. The total balances in these arrangements are to be maintained at 25% of annual General Fund ongoing, operating expenditures, excluding one-time expenditures divided equally between both arrangements. When either arrangement is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures. The arrangements can be used when:

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

Should any of the events listed above occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic or budget stabilization arrangement appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the event and authorizing the appropriation of reserve funds.

PERS Unfunded Liability committed fund balance will be used to fund net pension liabilities for the Town's Miscellaneous and Safety pension plans administered by CALPERS. In FY 17/18 the Town approved an update to its General Fund reserve policy providing to the extent possible that additional annual deposits be calculated and placed into this reserve with the goal of moving the payment of the unfunded liability from a 29 year to a 20 year amortization period.

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

**Assigned**

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 8 - FUND BALANCES, CONTINUED**

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

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

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

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

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

*Compensated Absences* assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2018 that were not an obligation of the General Fund because of their long-term nature.

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

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN**

**(a) General Information about the Pension Plans**

**Plan Description** - All qualified employees are eligible to participate in the Town's pooled Safety Plan, a cost-sharing multiple-employer defined benefit pension plan and the Town's Miscellaneous (all other) Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Audited financial statements of CalPERS can be obtained from its website <https://www.calpers.ca.gov/page/forms-publications>. The Town relies upon actuarial and investment data provided by CalPERS for inclusion and analysis in this report.

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, Lump Sum, or the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(a) General Information about the Pension Plan, Continued**

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire Date	Miscellaneous			Safety	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
		Prior to September 15, 2012 and before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013	Before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2% @ 60	2% @ 62	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years	5 years	5 years	5 years	5 years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62	62	62
Monthly benefits as a % of eligible compensation	2% to 2.5%	1% to 2.5%	1.5% to 2.5%	3%	2% to 2.7%
Required employee contribution rates	8.00%	7.00%	6.75%	9.00%	12.25%
Required employer contribution rates	9.932%			21.418%	12.729%
Required payment of unfunded liability	\$ 1,700,602			\$936,513	30

**Employees Covered**

At June 30, 2017, the following employees were covered by the benefit terms for the Miscellaneous and Safety Plans:

	Miscellaneous	Safety
Active	110	36
Transferred	96	17
Separated	81	1
Retired	221	73
Total	508	127

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(b) Net Pension Liability**

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

For the Safety Plan, net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The Town's proportion of the net pension liability (Safety Plan) was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of the measurement date June 30, 2017 was as follows:

	Proportionate Share of Net Pension Liability
Proportion - June 30, 2016	0.22394%
Proportion - June 30, 2017	0.37515%
Change - Increase (Decrease)	0.15121%

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

*Actuarial Assumptions* - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	
Investment Rate of Return	7.15%	7.15%
Mortality (1)	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	

(1) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report available on the CalPERS website.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(b) Net Pension Liability, continued**

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

**Discount Rate** - The discount rate used to measure the total pension liability was 7.15% for the Plan and reflects the long-term expected rate for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS conducted cash flow projections for plans with a higher likelihood of running out of assets with too high of a discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100%		

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(c) Changes in the Net Pension Liability**

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

<u>Miscellaneous Plan</u>	<u>Total Pension Liability</u>	<u>Fiduciary Net Pension</u>	<u>Net Pension Liability</u>
Beginning Balance	\$ 92,546,421	\$ 64,652,531	\$ 27,893,890
Service Costs	1,651,550		1,651,550
Interest on Total Pension Liability	6,820,536		6,820,536
Changes of Assumptions	5,481,432		5,481,432
Difference Between Actual and Expected Experience	(892,479)		(892,479)
Net Plan to Plan Resource Movement		-	-
Employer Contributions		2,407,496	(2,407,496)
Employee Contributions		682,891	(682,891)
Net Investment Income		7,171,443	(7,171,443)
Employee Contribution Refunds and Benefit Payments	(5,138,083)	(5,138,083)	-
Administrative Expenses		(95,455)	95,455
Other Miscellaneous Income		-	-
Net Changes	<u>7,922,956</u>	<u>5,028,292</u>	<u>2,894,664</u>
Ending Balance	<u>\$ 100,469,377</u>	<u>\$ 69,680,823</u>	<u>\$ 30,788,554</u>

For the measurement period ended June 30, 2017, the Town contributed \$1,786,150 for the safety Cost-Sharing Plan.

As of June 30, 2018, the Town reported net pension liabilities for its proportionate share of the net pension liability of the safety Cost-Sharing Plan of \$22,415,954.

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(c) Changes in the Net Pension Liability, Continued**

Sensitivity to Changes in the Discount Rate	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan	Total
1% Decrease (6.15%) Net Pension Liability	\$ 43,929,077	\$ 34,416,889	\$ 78,345,966
Current Discount Rate (7.15%) Net Pension Liability	\$ 30,788,554	\$ 22,415,954	\$ 53,204,508
1% Increase (8.15%) Net Pension Liability	\$ 19,959,680	\$ 12,605,789	\$ 32,565,469

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

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

For the year ended June 30, 2018, the Town recognized pension expense of \$5,112,099 for the Miscellaneous Agent Multiple Employer Plan and \$2,710,876 for the Safety Cost Sharing Plan. The Town recognized total pension expense for all plans of \$7,822,975.

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the Miscellaneous Agent Multiple Employer Plan:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,669,133	\$ -
Changes in assumptions	2,989,872	-
Difference between expected and actual experiences	-	(519,342)
Net differences between projected and actual earnings on plan investments	929,473	-
<b>Totals</b>	<b>\$ 6,588,478</b>	<b>\$ (519,342)</b>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

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

\$2,669,133 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,999,069
2020	1,529,235
2021	398,040
2022	(526,340)
Thereafter	-

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Cost Sharing Plan:

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,951,711	\$ -
Changes in assumptions	3,632,700	(278,710)
Difference between expected and actual experiences	250,488	(65,309)
Changes in employer's proportion	2,226,559	(2,240,707)
Differences between the employer's contributions and the employer's proportionate share of contributions	799,852	(518,851)
Net differences between projected and actual earnings on plan investments	792,071	-
<b>Totals</b>	<b>\$ 9,653,381</b>	<b>\$ (3,103,576)</b>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

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

\$1,951,711 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year end June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,016,264
2020	2,330,380
2021	1,448,063
2022	(463,469)
Thereafter	-

**(e) Payable to the Pension Plan**

At June 30, 2018, the Town reported a payable of \$83,235 and \$54,145 for the outstanding amount of contributions to the Miscellaneous Agent Multiple Employer Plan and the Safety Cost Sharing Plan for the year ended June 30, 2018.

**(f) IRS Section 115 Trust**

In March, 2018 the Town established an IRS Section 115 Trust (Trust) with Public Agencies Retirement Services (PARS), an entity independent of CalPERS, in order to prefund the pension liabilities for both the Miscellaneous and Safety defined-benefit pension plans. The Town contributed \$1,200,000 to the Trust for the fiscal year ending June 2018 which is not reflected in any of the deferral amounts in the tables above as it is separate from the plans.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description** - The Town makes contributions to California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare plan administered by CalPERS. 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

In accordance with the Public Employees' Medical and Hospital Care Act (PEMHCA), employees qualify for retiree health benefits upon five (5) years of service if they meet the vesting requirements as set forth by Cal PERS and take a service or disability retirement from Town employment. Additionally, the employee must actually draw a CalPERS pension within ninety (90) days of separation from the Town, provided the employee remains with the Town's health plan through COBRA. For employees who retire on or after February 1, 2016, at Medicare eligibility, the Town will align contributions to the full cost of the employee's enrollment, including enrollment of family members, in a health benefits plan or plans up to a maximum of 100% Single Party and 90% Dependents for Kaiser Bay Area Basic/Medicare/Combo per month.

Upon retirement, employees have the option to roll over their sick leave accrual into a Town-managed fund. Employees can request reimbursement of medical expenses from the fund up to the value of their sick leave at retirement.

**Contributions** - 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 measurement period July 1, 2016-June 30, 2017, the Town contributed \$3,878,000 to the plan which included \$1,040,000 of cash benefit payments, administrative fees of \$9,000, and \$229,000 of implied subsidy benefit payments. All related obligations are paid from the Town's General Fund.

**Covered Participants**

Inactive employees or beneficiaries currently receiving benefits	122
Inactive employees entitled to but not yet receiving benefits	50
Active employees	<u>148</u>
Total	<u><u>320</u></u>

**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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

For the June 30, 2017 actuarial valuation, the actuarial assumptions used are as follows:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Contribution Policy	Pre-funded through CERBT with the Strategy 1 asset allocation
Salary Increases	Varies by Entry Age and Service
Projected Salary Increase	3.00%
Investment Rate of Return	6.75%
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2017
Healthcare Trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years
Participation at Retirement	Actives in insurance program: 100% Actives in cash allocation program: 90% Waived retirees aged <65: 20% Waived retirees aged ≥65: 0% Retirees with sickleave conversion accounts will continue to participate after account exhausted

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation*	Expected Real Rate of Return
Public Equity	57.00%	4.82%
Fixed Income	27.00%	1.47%
TIPS	5.00%	1.29%
Commodities	3.00%	0.84%
REITS	8.00%	3.76%
Assumed Long-Term Rate of Inflation		2.75%
Assumed Long-Term Investment Expenses		n/a
Expected Long-Term Net Rate of Return, Rounded		6.75%
Discount Rate**		6.75%

\*Provided by CalPERS' Strategic Asset Allocation Analysis Overview in August 2014 – Strategy 1.

\*\*The fiduciary net position is projected to be sufficient to make projected benefit payments, and the plan assets are expected to be invested using the strategy to achieve the expected return.

**Discount Rate** - The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

**Net OPEB Liability** – The net OPEB liability is calculated by subtracting the fiduciary net position (FNP) of the Plan from the total OPEB liability as determined by the actuary. The table that follows displays the changes that applied to the total OPEB liability, FNP, and Net OPEB liability during the measurement period of July 1, 2016 through June 30, 2017.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
<b>Balance at June 30, 2017</b> <b>(6/30/16 measurement date)</b>	\$ 23,301,000	\$ 9,964,000	\$ 13,337,000
<b>Changes in the year:</b>			
Service cost	1,134,000	-	1,134,000
Interest on the total pension liability	1,607,000	-	1,607,000
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contributions - employer	-	3,878,000	(3,878,000)
Contributions - employee	-	-	-
Net investment income	-	1,049,000	(1,049,000)
Administrative expenses	-	(14,000)	14,000
Benefit payments , including refunds of employee contributions	(1,269,000)	(1,269,000)	-
<b>Net changes</b>	<b>1,472,000</b>	<b>3,644,000</b>	<b>(2,172,000)</b>
<b>Balance at June 30, 2017</b> <b>(6/30/17 measurement date)</b>	<b>\$ 24,773,000</b>	<b>\$ 13,608,000</b>	<b>\$ 11,165,000</b>

Due to these changes, the Town achieved an OPEB Plan funding status of 54.9% for the June 30, 2017 measurement date.

	Fiscal Year Ending	
	6/30/2018	6/30/2017
Measurement Date	6/30/2017	6/30/2016
Total OPEB Liability (TOL)	24,773,000	23,301,000
Fiduciary Net Position* (FNP)	13,608,000	9,964,000
Net OPEB Liability (NOL)	11,165,000	13,337,000
Funded Status (FNP/TOL)	54.9%	42.8%

\* Changes in Plan Fiduciary Net Position are from CalPERS' audited CERBT "Schedule of Changes in Fiduciary Net Position by Employer" for the Fiscal Year Ended June 30, 2017.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

**Sensitivity of Actuarial Assumptions** – The following tables indicate how much the net OPEB liability varies if the discount rate and healthcare trend rate used to calculate the liability are increased or decreased by one percentage point.

<u>Discount Rate</u>	<u>1% Decrease</u> <u>(5.75%)</u>	<u>Current Rate</u> <u>(6.75%)</u>	<u>1% Increase</u> <u>(7.75%)</u>
Net OPEB Liability	\$ 14,395,000	\$ 11,165,000	\$ 8,500,000
<u>Healthcare Trend</u>	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 8,871,000	\$ 11,165,000	\$ 13,584,000

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB** - Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Partial amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. The measurement period July 1, 2016 through June 30, 2017 gains and losses are spread evenly over a 5-year period. The total OPEB expense recognized in the fiscal year ending June 30, 2018 was \$2,007,000 and the Town reported deferrals from the following sources:

	<u>OPEB</u>	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
• Employer contribu. ons made subsequent to the measurement date	\$ 2,935,313	\$ -
• Difference between expected and actual experie	<u>-</u>	<u>(301,000)</u>
Totals	<u>\$ 2,935,313</u>	<u>\$ (301,000)</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

The \$2,935,313 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (75,000)
2020	(75,000)
2021	(75,000)
2022	(76,000)
Thereafter	-

**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.

**Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA)** - The Town participates in PLAN, 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. PLAN 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, PLAN becomes responsible for payment of all claims up to the limit. Financial statements may be obtained from PLAN at 375 Beale Street, San Francisco, CA 94105.

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 11 - RISK MANAGEMENT, CONTINUED**

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, 2018:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2016	\$ 1,034,066	\$ 119,472	\$ 1,153,538
Claims incurred	716,153	229,151	945,304
Claims paid	(650,483)	(99,967)	(750,450)
Claims payable balance - June 30, 2017	1,099,736	248,656	1,348,392
Claims incurred	1,028,359	105,000	1,133,359
Claims paid	(655,770)	(221,913)	(877,683)
Claims payable balance - June 30, 2018	<u>\$ 1,472,324</u>	<u>\$ 131,743</u>	<u>\$ 1,604,067</u>

**NOTE 12 - REDEVELOPMENT AGENCY DISSOLUTION**

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

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

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

**Successor Agency** - As of June 30, 2018, the Successor Agency Trust fund reported a net deficit of \$7,333,783.

**Encumbrances** - As of June 30, 2018, the Town had the following encumbered balances that were carried into the next fiscal year:

General Fund	\$	99,927
Appropriated Reserves Fund		4,411,598
Non-major Governmental Funds		<u>371,367</u>
Total Encumbrances	\$	<u>4,882,892</u>

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

**Public Improvement Grants and Cooperative Agreements**

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Affordable Housing Cooperative Agreement**

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

**NOTE 16 – PRIOR PERIOD ADJUSTMENTS**

The Town recorded prior period adjustments to adjust the net OPEB obligation, net OPEB liability, OPEB deferred contributions and other miscellaneous adjustments as follow:

Government-wide Statements

	Net Position, as Previously Reported	Prior Period Adjustment			Net Position as Restated
		Net OPEB Obligation	Net OPEB Liability	OPEB Deferred Contribution Other	
Government-Wide Statements Governmental Activities	\$ 117,027,779	\$ 897,601	\$ (13,337,000)	\$ 3,878,000 \$ 59,829	\$ 108,526,209

Fund Financial Statements

	Fund Balance as Previously Reported	Other	Fund Balance as Restated
Government Funds General Fund	\$ 29,180,624	\$ 59,829	\$ 29,240,453

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## **Required Supplementary Information**

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

***Schedule of Proportionate Share of Net Pension Liability – CalPERS Misc. Agent-Multiple Employer Plan***

Measurement Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
<b>Total Pension Liability</b>				
Service Cost	\$ 1,651,550	\$ 1,560,679	\$ 1,491,925	\$ 1,579,547
Interest on total pension liability	6,820,536	6,697,247	6,483,032	6,268,015
Difference between expected and actual experience	(892,479)	(357,870)	(623,495)	-
Changes in assumptions	5,481,432	-	(1,513,132)	-
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
<b>Net change in total pension liability</b>	<b>7,922,956</b>	<b>2,946,300</b>	<b>1,089,544</b>	<b>3,606,075</b>
<b>Total pension liability - beginning</b>	<b>92,546,421</b>	<b>89,600,121</b>	<b>88,510,577</b>	<b>84,904,502</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 100,469,377</b>	<b>\$ 92,546,421</b>	<b>\$ 89,600,121</b>	<b>\$ 88,510,577</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	2,407,496	2,223,782	1,941,765	1,796,079
Contributions - employee	682,891	691,770	679,796	668,167
Plan to plan resource movement	-	(28,866)	22,561	-
Projected Earnings on Plan Investments	-	-	-	4,328,173
Recognized Difference between Projected and Actual Earning	-	-	-	1,166,344
Net Investment Income	7,171,443	369,185	1,470,873	-
Net Difference between Projected and Actual Earnings	-	-	-	4,665,374
Benefit payments, including refunds of employee contribution	(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
Administrative Expenses	(95,455)	(40,462)	(74,706)	-
<b>Net change in plan fiduciary net position</b>	<b>5,028,292</b>	<b>(1,738,347)</b>	<b>(708,497)</b>	<b>8,382,650</b>
<b>Plan fiduciary net position - beginning</b>	<b>64,652,531</b>	<b>66,390,878</b>	<b>67,099,375</b>	<b>58,716,725</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 69,680,823</b>	<b>\$ 64,652,531</b>	<b>\$ 66,390,878</b>	<b>\$ 67,099,375</b>
Net pension liability - ending (a) - (b)	\$ 30,788,554	\$ 27,893,890	\$ 23,209,243	\$ 21,411,202
Plan fiduciary net position as a percentage of the total pension liability	69.36%	69.86%	74.10%	75.81%
Covered payroll	9,190,767	9,198,318	8,487,940	8,406,315
Net pension liability as a percentage of covered payroll	334.99%	303.25%	273.44%	254.70%

**Notes to Schedule:**

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

**Changes in assumptions:** For 2015, the discount rate was changed from 7.5% (net of administrative expense) to 7.65%. In 2017 the discount rate changed from 7.65% to 7.15%.

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only four years are shown.

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

<b>Measurement Date</b>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Proportion of the net pension liability	0.37515%	0.22394%	0.14860%	0.28588%
Proportionate share of the net pension liability	\$ 22,415,954	\$ 19,377,843	\$ 10,199,904	\$ 17,788,690
Covered payroll	\$ 4,941,138	\$ 5,022,498	\$ 4,897,104	\$ 4,916,535
Proportionate share of the net pension liability as percentage of covered payroll	453.66%	385.82%	208.28%	361.81%
Plan fiduciary net position as a percentage of the total pension liability	73.87%	74.06%	78.40%	75.66%

**Notes to Schedule:**

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

**Changes in assumptions:** For 2015, the discount rate was changed from 7.75% (net of administrative expense) to 7.65%. In 2017 the discount rate changed from 7.65% to 7.15%.

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only four years are shown.

**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Fiscal Year	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 2,669,133	\$ 2,407,496	\$ 2,223,782	\$ 1,941,765
Contributions in Relation to the Actuarially Determined Contribution	(2,669,133)	(2,407,496)	(2,223,782)	(1,941,765)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	11,269,313	9,190,767	9,198,318	8,487,940
Contributions as a Percentage of Covered Payroll	23.68%	26.19%	24.18%	22.88%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only four years are shown.

***Schedule of Pension Plan Contributions – Safety Cost-Sharing Plan***

Fiscal Year	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 1,951,711	\$ 1,738,150	\$ 1,586,129	\$ 1,999,757
Contributions in Relation to the Actuarially Determined Contribution	(1,951,711)	(1,738,150)	(1,586,129)	(1,999,757)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	3,716,402	4,941,138	5,022,498	4,897,104
Contributions as a Percentage of Covered Payroll	52.52%	35.18%	31.58%	40.84%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only four years are shown.

***Actuarial Methods and Assumptions used for Pension Actuarially Determined Contributions***

Actuarial Cost Method	Entry Age Normal
Amortization Method	For details, see June 30, 2014 CalPERS Funding Valuation Report
Amortization Period	For details, see June 30, 2014 CalPERS Funding Valuation Report
Asset Valuation Method	Market Value of Assets. For details, see June 30, 2014 CalPERS Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	CalPERS 1997-2011 experience study
Mortality	CalPERS 1997-2011 experience study Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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***Schedule of Changes in Net OPEB Liability and Related Ratios***

<b>Measurement Date</b>	<b><u>6/30/2017</u></b>
<b>Changes in Total OPEB Liability</b>	
Service Cost	\$ 1,134,000
Interest on net liability	1,607,000
Difference between expected and actual experience	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments	<u>(1,269,000)</u>
<b>Net change in total OPEB liability</b>	<b>1,472,000</b>
<b>Total OPEB liability - beginning</b>	<b><u>23,301,000</u></b>
<b>Total OPEB liability - ending (a)</b>	<b><u>\$ 24,773,000</u></b>
<b>Changes in plan fiduciary net position</b>	
Contributions - employer	3,878,000
Contributions - employee	-
Net Investment Income	1,049,000
Benefit payments	(1,269,000)
Administrative Expenses	<u>(14,000)</u>
<b>Net change in plan fiduciary net position</b>	<b>3,644,000</b>
<b>Plan fiduciary net position - beginning</b>	<b><u>9,964,000</u></b>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 13,608,000</u></b>
Net OPEB liability - ending (a) - (b)	\$ 11,165,000
Plan fiduciary net position as a percentage of the total OPEB liability	54.9%
Covered payroll	14,985,716
Net pension liability as a percentage of covered payroll	74.50%

***Schedule of Employer Contributions***

<b>Fiscal Year</b>	<b><u>2018</u></b>
Actuarially Determined Contribution (ADC)	\$ 2,129,000
Actual Contributions	<u>2,935,000</u>
Contribution deficiency/(excess)	(806,000)
Covered employee payroll	14,985,716
Contributions as a percentage of covered payroll	19.6%

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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***Actuarial Methods and Assumptions used for 2017/18 OPEB Actuarially Determined Contribution***

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Amortization Method	Level percent of pay
Amortization Period	21-year fixed period for 2017/18
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Discount Rate	7.25%
General Inflation	3.00%
Medical Trend	Non-medicare - 6.5% for 2018, decreasing to an ultimate rate of 5.0% in 2021 Medicare - 6.7% for 2018, decreasing to an ultimate rate of 5.0% in 2021
Mortality	CalPERS 1997-2011 experience study
Mortality Improvement	Mortality Improvement Scale MP-2014 modified to converge to ultimate mortality improvement rates in 2022

## **Supplementary Information**

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

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

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

***Capital Projects Funds:***

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

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

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

***Special Revenue Funds:***

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

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

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

**TOWN OF LOS GATOS**  
**APPROPRIATED RESERVES FUND**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (GAAP)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Licenses & permits	\$ 110,000	\$ 110,000	\$ 204,391	\$ 94,391
Intergovernmental	760,663	1,890,723	261,534	(1,629,189)
Charges for services	471,429	506,058	424,556	(81,502)
Interest	20,000	20,000	31,945	11,945
Other	-	337,519	58,898	(278,621)
Total Revenues	<u>1,362,092</u>	<u>2,864,300</u>	<u>981,324</u>	<u>(1,882,976)</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>8,397,999</u>	<u>22,173,568</u>	<u>8,894,531</u>	<u>13,279,037</u>
Total Expenditures	<u>8,397,999</u>	<u>22,173,568</u>	<u>8,894,531</u>	<u>13,279,037</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(7,035,907)</u>	<u>(19,309,268)</u>	<u>(7,913,207)</u>	<u>11,396,061</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,482,227	2,718,432	2,638,224	(80,208)
Transfers (out)	<u>(507,824)</u>	<u>(605,824)</u>	<u>(525,616)</u>	<u>80,208</u>
Total Other Financing Sources (Uses)	<u>1,974,403</u>	<u>2,112,608</u>	<u>2,112,608</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	<u>\$ (5,061,504)</u>	<u>\$ (17,196,660)</u>	<u>(5,800,599)</u>	<u>\$ 11,396,061</u>
<b>BEGINNING FUND BALANCE</b>			<u>18,102,031</u>	
<b>ENDING FUND BALANCE</b>			<u>\$ 12,301,432</u>	

**TOWN OF LOS GATOS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2018**

	CAPITAL PROJECTS FUNDS				
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund
<b>ASSETS</b>					
Cash & Investments	\$ 2,583,655	\$ 2,997,984	\$ 1,364,108	\$ 6,945,747	\$ 94,412
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental Receivable	-	-	66,370	66,370	58,344
Long Term Notes Receivable	-	-	-	-	78,752
Total Assets	<u>\$ 2,583,655</u>	<u>\$ 2,997,984</u>	<u>\$ 1,430,478</u>	<u>\$ 7,012,117</u>	<u>\$ 231,508</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 97,657	\$ -	\$ 727,330	\$ 824,987	\$ -
Accrued Payroll and Benefits	-	-	-	-	-
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	-	-	64,855
Total Liabilities	<u>97,657</u>	<u>-</u>	<u>727,330</u>	<u>824,987</u>	<u>64,855</u>
<b>FUND BALANCE</b>					
Restricted for:					
Repairs and Maintenance	-	-	-	-	-
Capital Projects	2,485,998	2,997,984	703,148	6,187,130	-
Assigned for:					
Special Revenue Funds	-	-	-	-	166,653
Total Fund Balances	<u>2,485,998</u>	<u>2,997,984</u>	<u>703,148</u>	<u>6,187,130</u>	<u>166,653</u>
Total Liabilities and Fund Balances	<u>\$ 2,583,655</u>	<u>\$ 2,997,984</u>	<u>\$ 1,430,478</u>	<u>\$ 7,012,117</u>	<u>\$ 231,508</u>

(Continued)

SPECIAL REVENUE FUNDS			
Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 199,462	\$ 293,874	\$ 7,239,621
145,406	-	145,406	145,406
-	336	58,680	125,050
-	-	78,752	78,752
<u>\$ 145,406</u>	<u>\$ 199,798</u>	<u>\$ 576,712</u>	<u>\$ 7,588,829</u>
\$ 1,617	\$ 1,114	\$ 2,731	\$ 827,718
3,882	-	3,882	3,882
68,569	-	68,569	68,569
-	-	64,855	64,855
<u>74,068</u>	<u>1,114</u>	<u>140,037</u>	<u>965,024</u>
-	198,684	198,684	198,684
-	-	-	6,187,130
<u>71,338</u>	<u>-</u>	<u>237,991</u>	<u>237,991</u>
<u>71,338</u>	<u>198,684</u>	<u>436,675</u>	<u>6,623,805</u>
<u>\$ 145,406</u>	<u>\$ 199,798</u>	<u>\$ 576,712</u>	<u>\$ 7,588,829</u>

(Concluded)

**TOWN OF LOS GATOS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	CAPITAL PROJECTS FUNDS			Total Capital Projects Funds
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	31,838	-	31,838
License and permits	803,770	-	-	803,770
Intergovernmental	-	-	852,300	852,300
Charges for Services	-	-	-	-
Interest	3,478	37,030	13,307	53,815
Other	-	-	-	-
Total Revenues	<u>807,248</u>	<u>68,868</u>	<u>865,607</u>	<u>1,741,723</u>
<b>EXPENDITURES</b>				
Current:				
Parks and Public Works	-	-	-	-
Sanitation and Other	-	-	-	-
Capital Outlay	126,692	-	749,965	876,657
Total Expenditures	<u>126,692</u>	<u>-</u>	<u>749,965</u>	<u>876,657</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	680,556	68,868	115,642	865,066
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(106,000)</u>	<u>(106,000)</u>
Changes in Fund Balances	680,556	68,868	9,642	759,066
Fund Balances - Beginning of year, as restated	<u>1,805,442</u>	<u>2,929,116</u>	<u>693,506</u>	<u>5,428,064</u>
Fund Balances - End of year	<u>\$ 2,485,998</u>	<u>\$ 2,997,984</u>	<u>\$ 703,148</u>	<u>\$ 6,187,130</u>

(Continued)

SPECIAL REVENUE FUNDS				
Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total
\$ -	\$ -	\$ 34,574	\$ 34,574	\$ 34,574
-	-	-	-	31,838
-	231,323	-	231,323	1,035,093
-	903	-	903	853,203
-	345,365	-	345,365	345,365
-	-	2,416	2,416	56,231
-	-	-	-	-
-	577,591	36,990	614,581	2,356,304
-	-	26,159	26,159	26,159
-	521,147	-	521,147	521,147
-	-	6,870	6,870	883,527
-	521,147	33,029	554,176	1,430,833
-	56,444	3,961	60,405	925,471
-	-	(4,920)	(4,920)	(110,920)
-	-	(4,920)	(4,920)	(110,920)
-	56,444	(959)	55,485	814,551
166,653	14,894	199,643	381,190	5,809,254
<u>\$ 166,653</u>	<u>\$ 71,338</u>	<u>\$ 198,684</u>	<u>\$ 436,675</u>	<u>\$ 6,623,805</u>

(Concluded)

**TOWN OF LOS GATOS**  
**BUDGETED NONMAJOR FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (GAAP)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	231,323	231,323	-
Intergovernmental	-	-	-	-	903	903
Charges for services	-	-	-	353,071	345,365	(7,706)
Interest	-	-	-	-	-	-
Total Revenues	-	-	-	584,394	577,591	(6,803)
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	564,910	521,147	43,763
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	564,910	521,147	43,763
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	-	-	19,484	56,444	36,960
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
<b>CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 19,484</u>	<u>56,444</u>	<u>\$ 36,960</u>
<b>BEGINNING FUND BALANCE</b>		<u>166,653</u>			<u>14,894</u>	
<b>ENDING FUND BALANCE</b>		<u>\$ 166,653</u>			<u>\$ 71,338</u>	

(Continued)

LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS			CONSTRUCTION TAX		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ 38,220	\$ 34,574	\$ (3,646)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	30,000	31,838	1,838
-	-	-	92,500	803,770	711,270	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
641	2,416	1,775	8,740	3,478	(5,262)	14,280	37,030	-
38,861	36,990	(1,871)	101,240	807,248	706,008	44,280	68,868	1,838
31,533	26,159	5,374	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
82,500	6,870	75,630	179,750	126,692	53,058	112,000	-	112,000
114,033	33,029	81,004	179,750	126,692	53,058	112,000	-	112,000
(75,172)	3,961	79,133	(78,510)	680,556	759,066	(67,720)	68,868	136,588
(4,920)	(4,920)	-	-	-	-	-	-	-
(4,920)	(4,920)	-	-	-	-	-	-	-
\$ (80,092)	(959)	\$ 79,133	\$ (78,510)	680,556	\$ 759,066	\$ (67,720)	68,868	\$ 136,588
	199,643			1,805,442			2,929,116	
	\$ 198,684			\$ 2,485,998			\$ 2,997,984	

(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, 2018**

	GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ 38,220	\$ 34,574	\$ (3,646)
Other taxes	-	-	-	30,000	31,838	1,838
License and permits	-	-	-	323,823	1,035,093	711,270
Intergovernmental	866,940	852,300	(14,640)	866,940	853,203	(13,737)
Charges for services	-	-	-	353,071	345,365	(7,706)
Interest	1,100	13,307	12,207	24,761	56,231	8,720
Total Revenues	<u>868,040</u>	<u>865,607</u>	<u>(2,433)</u>	<u>1,636,815</u>	<u>2,356,304</u>	<u>696,739</u>
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	31,533	26,159	5,374
Sanitation and other	-	-	-	564,910	521,147	43,763
Capital outlay	<u>1,213,812</u>	<u>749,965</u>	<u>463,847</u>	<u>1,588,062</u>	<u>883,527</u>	<u>704,535</u>
Total Expenditures	<u>1,213,812</u>	<u>749,965</u>	<u>463,847</u>	<u>2,184,505</u>	<u>1,430,833</u>	<u>753,672</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(345,772)</u>	<u>115,642</u>	<u>461,414</u>	<u>(547,690)</u>	<u>925,471</u>	<u>1,473,161</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers (out)	<u>(106,000)</u>	<u>(106,000)</u>	<u>-</u>	<u>(110,920)</u>	<u>(110,920)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(106,000)</u>	<u>(106,000)</u>	<u>-</u>	<u>(110,920)</u>	<u>(110,920)</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	<u>\$ (451,772)</u>	<u>9,642</u>	<u>\$ 461,414</u>	<u>\$ (658,610)</u>	<u>814,551</u>	<u>\$ 1,473,161</u>
<b>BEGINNING FUND BALANCE</b>		<u>693,506</u>			<u>5,809,254</u>	
<b>ENDING FUND BALANCE</b>		<u>\$ 703,148</u>			<u>\$ 6,623,805</u>	

(Concluded)

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

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

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

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

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Information Technology	Vehicle Maintenance	Facilities Maintenance	Total
<b>ASSETS</b>								
Cash & Investments	\$2,345,816	\$2,170,510	\$1,424,107	\$ 229,147	\$3,080,748	\$ 605,934	\$ 891,604	\$ 10,747,866
Restricted Cash & Investments	-	37,229	-	-	-	-	-	37,229
Receivables:								
Accounts	-	118,926	-	-	2,092	312	16,483	137,813
Materials, Supplies and Deposits	-	-	-	173	-	27,838	-	28,011
Equipment (Net)	-	-	-	-	-	-	558	558
<b>Total Assets</b>	<b>2,345,816</b>	<b>2,326,665</b>	<b>1,424,107</b>	<b>229,320</b>	<b>3,082,840</b>	<b>634,084</b>	<b>908,645</b>	<b>10,951,477</b>
<b>Deferred Outflows of Resources</b>								
Pension Plan Contributions	-	31,528	22,116	-	84,921	38,716	61,030	238,311
Pension related amounts Total Deferred Outflows of Resources	-	23,064	55,707	-	124,698	56,850	89,652	349,971
	-	54,592	77,823	-	209,619	95,566	150,682	588,282
<b>LIABILITIES</b>								
Accounts Payable	17,203	25,349	437	1,530	120,455	6,520	91,658	263,152
Accrued Payroll and Benefits	343	3,430	5,161	-	14,072	6,202	6,318	35,526
Due to Other Governments	-	-	-	-	-	-	-	-
Claims Payable	-	1,472,324	131,743	-	-	-	-	1,604,067
Net Pension Liabilities	-	255,060	363,674	-	979,569	446,588	704,016	2,748,907
<b>Total Liabilities</b>	<b>17,546</b>	<b>1,756,163</b>	<b>501,015</b>	<b>1,530</b>	<b>1,114,096</b>	<b>459,310</b>	<b>801,992</b>	<b>4,651,652</b>
<b>Deferred Inflows of Resources</b>								
Pension related amounts Total Deferred Inflows of Resources	-	4,312	6,146	-	16,555	7,549	11,898	46,460
	-	4,312	6,146	-	16,555	7,549	11,898	46,460
<b>NET POSITION</b>								
Net investment in capital assets	-	-	-	-	-	-	558	558
Restricted for:								
Workers compensation claims	-	37,229	-	-	-	-	-	37,229
Unrestricted	2,328,270	583,553	994,769	227,790	2,161,808	262,791	244,879	6,803,860
<b>Total Net Position</b>	<b>\$2,328,270</b>	<b>\$ 620,782</b>	<b>\$ 994,769</b>	<b>\$ 227,790</b>	<b>\$2,161,808</b>	<b>\$ 262,791</b>	<b>\$ 245,437</b>	<b>\$ 6,841,647</b>

**TOWN OF LOS GATOS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Information Technology	Vehicle Maintenance	Facilities Maintenance	Total
<b>OPERATING REVENUES</b>								
Charges for services	\$ 622,313	\$ 884,190	\$ 506,519	\$ 127,786	\$ 1,172,455	\$ 586,654	\$ 1,142,513	\$ 5,042,430
Interest	-	5	-	-	-	-	-	5
Use of money and property	-	-	-	-	-	-	221,761	221,761
Other local taxes	-	-	-	-	-	-	31,838	31,838
Other	50,303	250,945	-	-	-	-	62,923	364,171
Total Operating Revenues	672,616	1,135,140	506,519	127,786	1,172,455	586,654	1,459,035	5,660,205
<b>OPERATING EXPENSES</b>								
Salaries and benefits	11,533	136,961	203,614	-	581,371	269,302	382,313	1,585,094
Insurance expenses	-	597,424	127,859	-	-	-	-	725,283
Depreciation expenses	-	-	-	-	-	-	957	957
Services and supplies	624,867	682,283	65,717	100,433	685,977	236,931	1,092,458	3,488,666
Total Operating Expenses	636,400	1,416,668	397,190	100,433	1,267,348	506,233	1,475,728	5,800,000
Operating Income (loss)	36,216	(281,528)	109,329	27,353	(94,893)	80,421	(16,693)	(139,795)
Transfers in	398,000	-	-	-	5,371	-	300,000	703,371
Net Transfers	398,000	-	-	-	5,371	-	300,000	703,371
Change in Net Position	434,216	(281,528)	109,329	27,353	(89,522)	80,421	283,307	563,576
<b>BEGINNING NET POSITION</b>	1,894,054	902,310	885,440	200,437	2,251,330	182,370	(37,870)	6,278,071
<b>ENDING NET POSITION</b>	\$ 2,328,270	\$ 620,782	\$ 994,769	\$ 227,790	\$ 2,161,808	\$ 262,791	\$ 245,437	\$ 6,841,647

**TOWN OF LOS GATOS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Information Technology	Vehicle Maintenance	Facilities Maintenance	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Receipts from customers	\$ 674,205	\$ 1,016,214	\$ 506,519	\$ 127,786	\$ 1,172,219	\$ 586,342	\$ 1,484,787	\$ 5,568,072
Payments to suppliers	(623,774)	(672,578)	(67,566)	(99,485)	(621,183)	(264,691)	(1,104,650)	(3,453,927)
Payments to employees	(11,516)	(116,874)	(174,351)	-	(503,918)	(234,832)	(330,352)	(1,371,843)
Claims paid	-	(224,835)	(244,772)	-	-	-	-	(469,607)
Net Cash Provided (Used) by Operating Activities	38,915	1,927	19,830	28,301	47,118	86,819	49,785	272,695
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Transfers Out	398,000	-	-	-	5,371	-	300,000	703,371
Net Cash Provided (Used) by Noncapital Financing Activities	398,000	-	-	-	5,371	-	300,000	703,371
Net Increase(Decrease) in Cash and Investments	436,915	1,927	19,830	28,301	52,489	86,819	349,785	976,066
Cash and investments - beginning of year	1,908,901	2,205,812	1,404,277	200,846	3,028,259	519,115	541,819	9,809,029
Cash and investments - end of year	\$ 2,345,816	\$ 2,207,739	\$ 1,424,107	\$ 229,147	\$ 3,080,748	\$ 605,934	\$ 891,604	\$ 10,785,095
Reconciliation of Operating Income to Cash Flows from Operating Activities:								
Operating Income	\$ 36,216	\$ (281,528)	\$ 109,329	\$ 27,353	\$ (94,893)	\$ 80,421	\$ (16,693)	\$ (139,795)
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	-	957	957
Change in assets and liabilities:								
Receivables, net	1,589	(118,926)	-	-	(236)	(312)	25,752	(92,133)
Material and supplies	-	-	-	(173)	-	(2,818)	-	(2,991)
Deferred outflows of resources	-	(5,587)	(7,960)	-	(21,447)	(9,778)	(15,453)	(60,225)
Net pension liabilities	-	23,940	34,186	-	92,103	41,988	66,235	258,452
Deferred inflows of resources	-	1,851	2,638	-	7,107	3,243	5,111	19,950
Accounts payable	1,093	9,705	(1,849)	1,121	64,794	(24,775)	(12,192)	37,897
Accrued payroll and benefits	17	(117)	399	-	(310)	(983)	(3,932)	(4,926)
Claims payable	-	372,589	(116,913)	-	-	-	-	255,676
Due to other government	-	-	-	-	-	(167)	-	(167)
Cash Flows From Operating Activities	\$ 38,915	\$ 1,927	\$ 19,830	\$ 28,301	\$ 47,118	\$ 86,819	\$ 49,785	\$ 272,695

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

**FIDUCIARY FUNDS**  
**PRIVATE PURPOSE TRUST FUNDS**

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

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

**TOWN OF LOS GATOS  
PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

	Library	RDA Successor Agency	Total
<b>ASSETS</b>			
Cash and investments (Note 2)	\$ 508,770	\$ 1,690,250	\$ 2,199,020
Restricted cash and investments (Note 2)	-	1,985,864	1,985,864
Accounts receivable	38,500	-	38,500
Loans receivable (Note 3)	-	563,761	563,761
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	1,627,084	1,627,084
Total Assets	<u>547,270</u>	<u>11,124,381</u>	<u>11,671,651</u>
<b>LIABILITIES</b>			
Accounts payable	11,337	43	11,380
Due to other governments	189	-	189
Interest payable	-	326,266	326,266
Long-term debt (Note 6):			
Due within one year	-	1,150,000	1,150,000
Due in more than one year	-	16,981,855	16,981,855
Total Liabilities	<u>11,526</u>	<u>18,458,164</u>	<u>18,469,690</u>
<b>NET POSITION</b>			
Held in trust	<u>535,744</u>	<u>(7,333,783)</u>	<u>(6,798,039)</u>
Total Net Position	<u>\$ 535,744</u>	<u>\$ (7,333,783)</u>	<u>\$ (6,798,039)</u>

**TOWN OF LOS GATOS  
PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Library	RDA Successor Agency	Total
<b>ADDITIONS</b>			
Property taxes	\$ -	\$ 1,958,325	\$ 1,958,325
Investment earnings	6,724	22,788	29,512
Gifts, bequests and endowments	74,315	-	74,315
Other	-	1,914,739	1,914,739
Total Additions	<u>81,039</u>	<u>3,895,852</u>	<u>3,976,891</u>
<b>DEDUCTIONS</b>			
Program expenses	-	1,927,753	1,927,753
Interest and fiscal agency expenses of RDA	-	749,832	749,832
Library services	77,252	-	77,252
Depreciation expense	-	101,693	101,693
Total Deductions	<u>77,252</u>	<u>2,779,278</u>	<u>2,856,530</u>
<b>CHANGE IN NET POSITION</b>	3,787	1,116,574	1,120,361
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>531,957</u>	<u>(8,450,357)</u>	<u>(7,918,400)</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 535,744</u>	<u>\$ (7,333,783)</u>	<u>\$ (6,798,039)</u>

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## **STATISTICAL SECTION**

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## **STATISTICAL (UNAUDITED)**

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

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

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

### **Demographic and Economic Information**

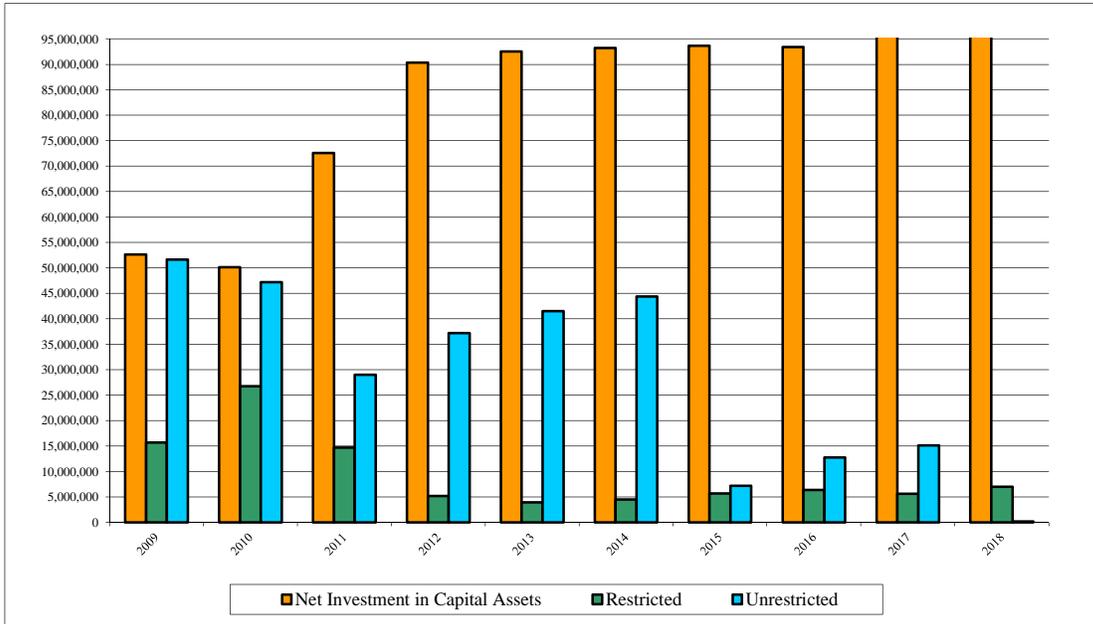
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

### **Operating Information**

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

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

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2009	52,665,506	15,663,436	51,619,635	119,948,577
2010	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698 (1)
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130 (2)
2016	93,383,855	6,386,014	12,744,637	112,514,506
2017	96,265,652	5,627,707	15,134,420	117,027,779
2018	102,098,729	6,992,747	170,590	109,262,066

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

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

Expenses	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Governmental Activities:</b>										
General Government	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804	\$ 6,465,852	\$ 6,993,661	\$ 6,771,628	\$ 9,155,819
Police Department	13,467,503	13,266,849	13,495,885	14,124,798	13,731,754	14,119,786	12,644,221	12,825,688	14,587,597	15,545,521
Parks and Public Works	8,671,678	7,458,085	7,155,905	7,827,332	7,829,315	8,154,616	8,069,352	8,320,623	9,502,707	10,047,003
Community Development	3,389,151	3,522,477	3,099,269	3,434,551	4,094,188	4,424,040	4,047,738	3,227,224	5,093,459	4,667,609
Community Services	1,162,284	1,270,240	666,015	-	-	-	-	-	-	-
Library Services	2,067,476	2,038,009	1,892,805	1,938,577	2,234,431	2,553,414	2,522,142	2,553,414	2,868,748	3,087,684
Sanitation	407,048	655,713	342,893	158,205	393,205	363,180	491,359	528,580	466,762	536,296
Redevelopment	2,939,550	6,992,935	16,794,022	919,821	1,277,063	21,687	-	-	-	-
Interest and Fees	631,159	612,700	1,278,381	-	-	-	-	-	-	-
Total Governmental Activities	\$ 38,059,316	\$ 40,464,809	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544	\$ 34,271,936	\$ 34,417,918	\$ 39,290,901	\$ 43,039,932

Program Revenues	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Charges for Services:</b>										
General Government	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077	\$ 1,888,213	\$ 1,517,012	\$ 1,669,020	\$ 1,701,146
Police Department	1,358,361	2,110,357	2,153,843	2,324,397	2,450,630	3,206,579	3,529,166	3,278,585	2,076,688	1,888,359
Parks and Public Works	637,933	779,300	810,022	1,215,382	3,044,401	1,550,867	2,206,765	1,516,108	2,155,841	4,150,068
Community Development	2,700,614	3,404,087	3,097,192	3,448,433	4,649,444	5,156,061	5,027,497	4,359,146	3,803,626	3,456,390
Community Services	147,895	134,366	98,803	37,662	50,696	51,775	53,123	46,192	46,746	14,702
Library Services	56,932	57,633	39,491	135,000	403,294	328,648	328,868	368,813	410,626	771,442
Sanitation	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
<b>Operating Grants and Contributions:</b>										
General Government	8,834	10,237	15,638	6,453	8,406	-	-	15,291	-	-
Police Department	538,629	81,997	27,748	29,980	91,360	42,661	24,838	98,138	837,329	895,730
Parks and Public Works	633,923	594,775	809,272	993,827	835,724	994,096	907,745	749,300	665,779	953,294
Community Services	190,447	124,287	182,683	-	-	-	-	-	-	-
Library Services	10,462	13,996	10,662	109	40	14,662	4,062	12,228	-	57,200
Sanitation	39,891	25,103	9,002	-	-	-	-	-	-	-
<b>Capital Grants and Contributions:</b>										
General Government	-	-	-	-	169,270	-	176,705	-	-	-
Parks and Public Works	1,330,638	3,074,453	2,375,759	641,811	2,274,879	2,274,879	2,338,154	1,610,657	770,600	348,437
Community Development	-	-	-	-	-	19,360	-	-	9,280	-
Total Program Revenues	\$ 8,944,968	\$ 11,883,363	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665	\$ 16,485,136	\$ 13,571,470	\$ 12,445,535	\$ 14,236,768

General Revenues	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Property Taxes	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312	\$ 12,931,603	\$ 13,763,458	\$ 14,756,214	\$ 15,958,406
Sales Taxes	8,487,000	8,317,217	9,971,409	9,889,100	8,757,428	8,029,571	8,202,678	7,501,175	8,925,276	7,466,253
Franchise Taxes	-	-	-	-	-	-	2,215,430	2,258,892	2,366,908	2,474,814
Other Taxes	2,664,698	2,623,622	2,906,264	3,698,753	3,324,791	3,718,405	2,062,893	1,997,497	2,351,223	2,667,840
Motor Vehicle in Lieu	101,265	92,595	139,814	15,238	15,790	13,068	-	12,308	14,056	16,483
Investment Earnings	2,949,119	1,155,929	760,905	331,420	(133,375)	772,200	428,772	698,324	192,260	333,120
Loss on Disposal of Capital Assets	-	-	(870,127)	-	-	-	-	-	-	-
Sale of Property	6,525,000	52,459	41,943	2,275,160	1,154,647	350,468	813,324	598,170	528,946	622,105
Miscellaneous	66,802	-	-	11,864,453	295,101	-	-	-	-	-
Extraordinary Gain (Loss) Dissolution of RDA	-	-	-	-	-	-	-	-	-	-
Total General Revenues	\$ 39,136,947	\$ 31,097,903	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024	\$ 26,654,700	\$ 26,829,824	\$ 29,134,883	\$ 29,539,021
<b>Change in Net Position</b>	\$ 10,022,599	\$ 2,516,457	\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145	\$ 8,867,900	\$ 5,983,376	\$ 2,289,517	\$ 735,857

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

	Fiscal Year									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>General Fund</b>										
Reserved	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	16,861,752	18,594,984	-	-	-	-	-	-	-	-
Nonspendable	-	-	1,500,000	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	21,806,781	21,992,886	20,758,156	23,791,749	24,121,256	20,019,187	15,129,925	12,953,399
Unassigned	-	-	2,433,556	4,019,409	7,502,446	1,363,376	-	9,555,085	14,050,699	17,475,285
<b>Total General Fund</b>	<b>\$ 25,027,359</b>	<b>\$ 23,086,573</b>	<b>\$ 25,740,337</b>	<b>\$ 26,012,295</b>	<b>\$ 28,260,602</b>	<b>\$ 25,155,125</b>	<b>\$ 24,121,256</b>	<b>\$ 29,574,272</b>	<b>\$ 29,180,624</b>	<b>\$ 30,428,684</b>
<b>All Other Governmental Funds</b>										
Reserved	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue Funds	522,105	225,509	-	-	-	-	-	-	-	-
Capital Project Funds	11,203,521	24,454,347	-	-	-	-	-	-	-	-
Debt Service Funds	7,526,557	6,953,732	-	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	14,764,334	5,167,236	3,949,583	4,485,246	5,663,182	6,386,014	5,627,707	6,992,747
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	4,786,547	5,389,674	6,097,182	8,191,823	15,346,558	3,696,000	10,354,584	5,571,087
Unassigned	-	-	(23,889)	107,107	157,208	183,045	206,875	11,099,076	7,928,994	6,361,403
<b>Total All Other Governmental Funds</b>	<b>\$ 34,517,310</b>	<b>\$ 42,158,972</b>	<b>\$ 19,526,992</b>	<b>\$ 10,664,017</b>	<b>\$ 10,203,973</b>	<b>\$ 12,860,114</b>	<b>\$ 21,216,615</b>	<b>\$ 21,181,090</b>	<b>\$ 23,911,285</b>	<b>\$ 18,925,237</b>
<b>Total Fund Balances</b>	<b>\$ 59,544,669</b>	<b>\$ 65,245,545</b>	<b>\$ 45,267,329</b>	<b>\$ 36,676,312</b>	<b>\$ 38,464,575</b>	<b>\$ 38,015,239</b>	<b>\$ 45,337,871</b>	<b>\$ 50,755,362</b>	<b>\$ 53,091,909</b>	<b>\$ 49,353,921</b>

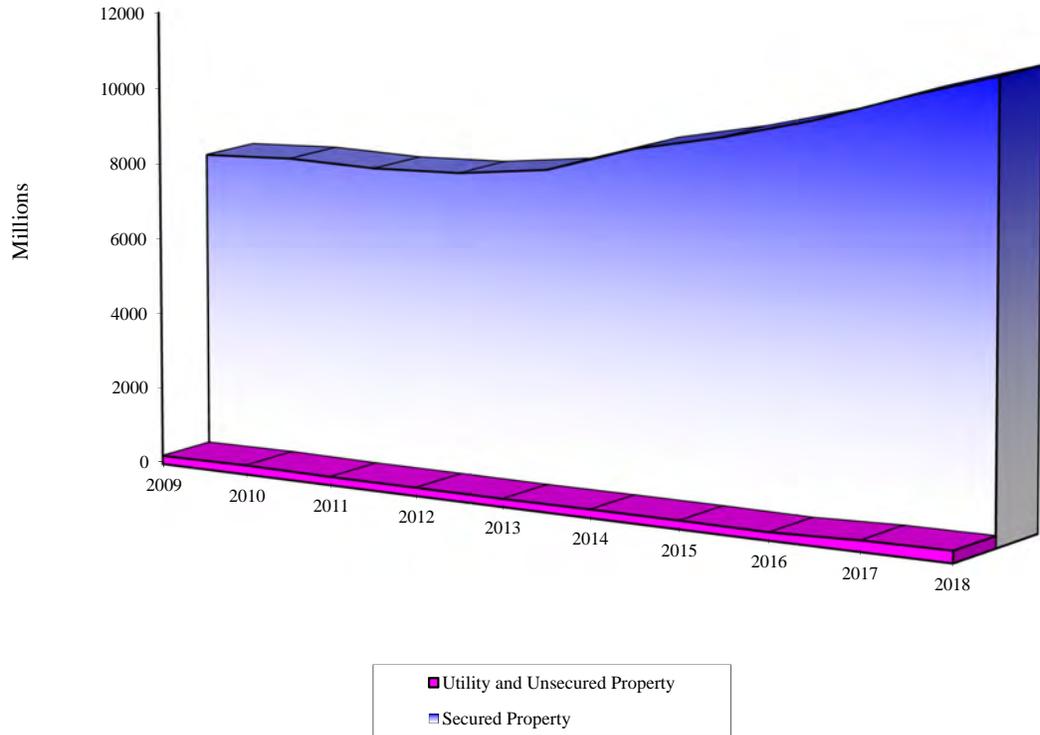
Town of Los Gatos  
 Changes in Fund Balances, Governmental Funds  
 Last Ten Fiscal Years  
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Revenues:</b>										
Taxes	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820	\$ 23,269,892	\$ 25,945,129	\$ 26,253,026
Intergovernmental	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002	2,573,475	1,715,580	2,124,903
Charges for Service	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386	4,773,001	4,210,174	5,395,057
Licenses & Permits	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771	5,442,133	5,075,503	5,937,044
Investment Income	2,949,120	1,174,203	691,022	291,484	(133,380)	772,164	428,735	698,308	192,978	332,938
Fines and Forfeitures	618,771	662,699	737,903	809,790	688,125	795,277	868,564	879,277	917,105	676,212
Franchise Fees	-	-	-	-	-	-	2,215,430	2,258,892	2,366,908	2,474,814
Use of Property	60,749	51,948	38,502	38,974	38,910	37,741	32,209	31,723	32,096	32,006
Other	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975	2,396,992	1,011,939	640,844
<b>Total Revenues</b>	<b>43,100,650</b>	<b>45,439,566</b>	<b>46,245,149</b>	<b>44,692,043</b>	<b>42,928,334</b>	<b>42,350,268</b>	<b>45,067,892</b>	<b>42,323,693</b>	<b>41,467,412</b>	<b>43,867,044</b>
<b>Expenditures:</b>										
Current										
Public Safety	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198	13,763,316	13,251,288	14,423,554
Public Works	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097	6,307,266	6,633,748	7,125,686
Community Development	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500	3,695,504	3,793,930	4,192,165
Community Services	1,149,290	1,261,981	663,645	1,805,479	2,055,069	2,131,438	2,268,844	2,332,268	2,508,677	2,529,017
Sanitation & Other	375,483	642,512	314,899	116,607	359,725	322,817	411,863	452,726	466,762	521,147
General Government	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451	9,144,797	8,390,959	8,770,082
Redevelopment	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063	21,687	-	-	-	-
Capital Outlay	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478	3,241,657	6,867,034	9,778,058
Debt Service	-	-	-	-	-	-	-	-	-	-
Principal Repayment	445,000	465,000	485,000	934,167	-	-	-	-	-	-
Interest and Fiscal Charges	638,221	620,356	1,019,881	1,143,185	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>43,419,514</b>	<b>56,733,967</b>	<b>66,606,303</b>	<b>48,317,986</b>	<b>41,814,015</b>	<b>38,762,529</b>	<b>38,934,431</b>	<b>38,937,534</b>	<b>41,912,398</b>	<b>47,339,709</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(318,864)</b>	<b>(11,294,401)</b>	<b>(20,361,154)</b>	<b>(3,625,943)</b>	<b>1,114,319</b>	<b>3,587,739</b>	<b>6,133,461</b>	<b>3,386,159</b>	<b>(444,986)</b>	<b>(3,472,665)</b>
<b>Other Financing Sources(Uses):</b>										
Debt Issuance	-	16,428,095	-	-	-	-	-	-	-	-
Transfers In	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220	3,315,846	7,907,692	3,176,760
Transfers Out	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)	(1,284,514)	(7,612,012)	(3,880,131)
Proceeds from Sale of Property	-	-	-	-	-	-	-	-	-	378,219
Proceeds from Issuance of Debt	-	-	-	-	-	-	-	-	4,435	-
<b>Total Other Financing Sources(Uses)</b>	<b>638,823</b>	<b>16,995,276</b>	<b>382,939</b>	<b>73,546</b>	<b>378,031</b>	<b>497,463</b>	<b>1,189,171</b>	<b>2,031,332</b>	<b>300,115</b>	<b>(325,152)</b>
<b>Special Item:</b>										
Sale of Property	6,525,000	-	-	-	-	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	(5,038,620)	295,913	(4,534,538)	-	-	-	-
Prepayment of Pension Obligations	-	-	-	-	-	-	-	-	-	-
<b>Net Change in Fund Balances</b>	<b>\$ 319,959</b>	<b>\$ 5,700,875</b>	<b>\$ (19,978,215)</b>	<b>\$ (3,552,397)</b>	<b>\$ 1,492,350</b>	<b>\$ 4,085,202</b>	<b>\$ 7,322,632</b>	<b>\$ 5,417,491</b>	<b>\$ (144,871)</b>	<b>\$ (3,797,817) (1)</b>
<b>Debt Service as a Percentage of Non Capital Expenditures</b>	<b>3.04%</b>	<b>2.67%</b>	<b>2.96%</b>	<b>5.56%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>

(1) Fund balances decreased due to General Fund revenues above expenditures of approximately \$1.2 million and a net decrease of \$5.0 million from the other Governmental Funds resulting primarily from the planned use of the GFAR fund balance for infrastructure capital projects.

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

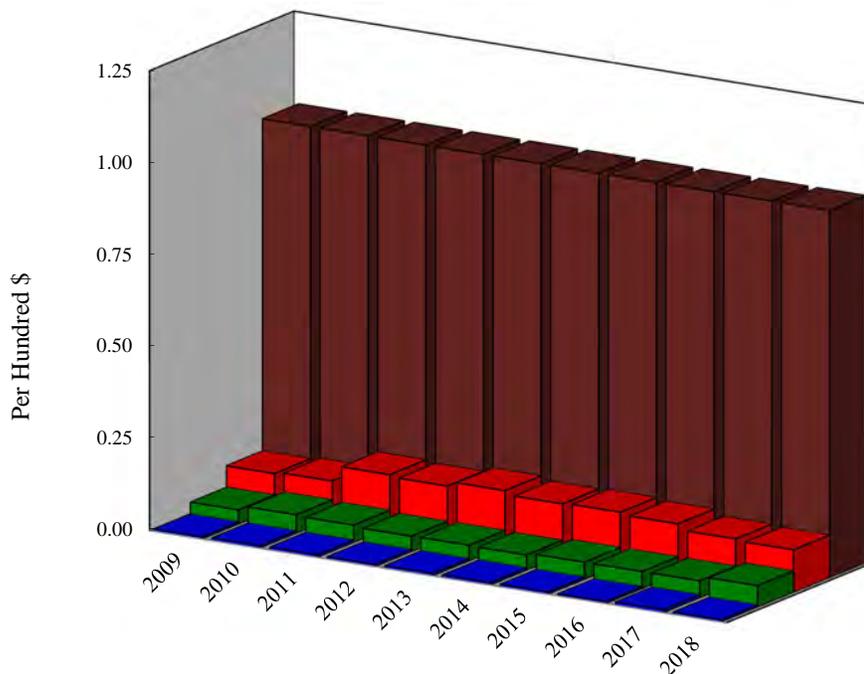
Schedule 5



Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0449
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0584
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0555
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533
2017	304,443,013	40.27%	11,240,554,198	7.90%	11,544,997,211	44,962,216,792	1.0560
2018	330,504,877	8.56%	11,969,049,272	6.48%	12,299,554,149	47,876,197,088	1.0659

Source: Santa Clara County Assessed Value Report

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



Santa Clara Valley Water District County  
 County Bonds and Levies  
 School District Bonds and Loans  
 Basic County Wide Levy

Fiscal Year	Basic County Wide Levy	County Bonds and Levies	Santa Clara Valley Water District	School District Bonds and Loans	Total
2009	1.0000	0.0388	0.0061	0.0970	1.1419
2010	1.0000	0.0510	0.0074	0.1021	1.1605
2011	1.0000	0.0483	0.0072	0.1449	1.2004
2012	1.0000	0.0435	0.0064	0.1393	1.1892
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914
2017	1.0000	0.0474	0.0086	0.1223	1.1783
2018	1.0000	0.0597	0.0062	0.1177	1.1836

Source: Santa Clara County Book of Tax Rates

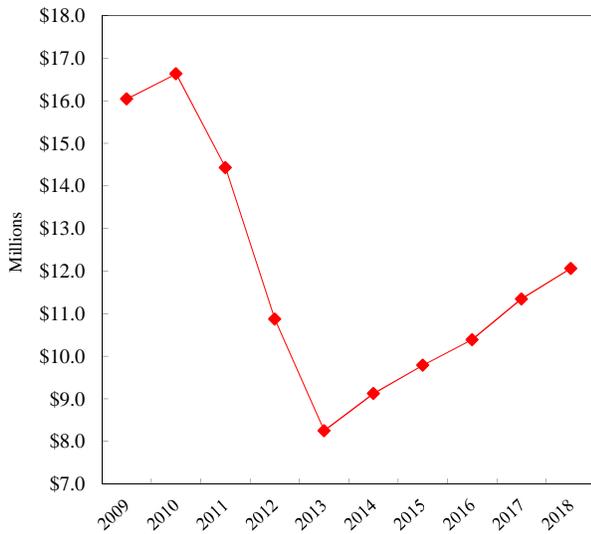
Town of Los Gatos  
Principle Property Tax Payers  
Last Five Fiscal Years \*

ASSEESSEE NAME	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18					
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value				
750 University LLC	\$ 22,000,000	0.28%	\$ 21,000,000	0.26%	\$ 20,950,229	0.26%	\$ 21,034,623	0.26%	\$ 12,137,999	0.14%	\$ 18,600,000	0.20%	\$ 19,379,620	0.19%	\$ 19,675,159	0.18%	\$ 19,675,159	0.18%	\$ 25,244,863	0.21%	\$ 25,244,863	0.21%		
Alberto Way Holdings LLC	20,516,687	0.26%	20,927,018	0.26%	20,877,418	0.26%	21,044,623	0.26%	23,145,064	0.27%	23,607,964	0.26%	24,188,966	0.23%	24,557,845	0.22%	24,557,845	0.22%	25,048,998	0.21%	25,048,998	0.21%		
Ann R. Desantis	-	-	-	-	36,839,021	0.46%	37,173,877	0.46%	37,150,368	0.44%	38,617,342	0.42%	38,772,905	0.40%	21,617,318	0.21%	21,918,921	0.20%	-	-	22,211,650	0.19%	-	-
Beccardo Corporation	20,519,274	0.26%	37,477,020	0.47%	36,839,021	0.46%	37,173,877	0.46%	37,150,368	0.44%	38,617,342	0.42%	38,772,905	0.40%	21,617,318	0.21%	21,918,921	0.20%	-	-	-	-	-	-
CH Realty IV Downing LP	28,815,000	0.36%	29,391,300	0.37%	19,000,000	0.24%	19,443,068	0.23%	19,525,927	0.23%	19,516,443	0.22%	15,901,869	0.17%	15,974,003	0.16%	16,293,163	0.16%	-	-	-	-	-	-
D&K Los Gatos LLC	14,044,573	0.18%	20,400,000	0.26%	20,351,651	0.25%	15,284,324	0.19%	15,990,000	0.18%	15,501,869	0.17%	15,501,869	0.17%	15,974,003	0.16%	16,293,163	0.16%	-	-	-	-	-	-
David A. and Sheri Fick Trustee	-	-	-	-	14,634,447	0.18%	14,724,487	0.18%	15,018,971	0.18%	-	-	15,388,884	0.16%	-	-	-	-	-	-	-	-	-	
Denhaue-Schiber Realty Group LP	-	-	-	-	-	-	-	-	-	-	-	-	20,006,861	0.20%	21,980,568	0.21%	21,980,568	0.21%	22,315,770	0.20%	22,315,770	0.20%		
DS Downing Los Gatos LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,790,599	0.20%	22,790,599	0.20%	22,790,599	0.20%	22,790,599	0.20%		
El Camino Hospital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,880,933	0.24%	26,880,933	0.24%	26,880,933	0.24%	26,880,933	0.24%		
Equitrain 3 Investments LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Good Samaritan Hospital LP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Green Way Associations VI	14,151,237	0.18%	14,434,261	0.18%	14,400,050	0.18%	14,508,482	0.18%	14,798,651	0.17%	15,094,823	0.16%	15,663,152	0.16%	15,663,152	0.16%	15,663,152	0.16%	15,663,152	0.16%	15,663,152	0.16%		
Green Eyes LLC	-	-	-	-	19,372,795	0.24%	19,372,795	0.24%	19,530,183	0.23%	19,710,877	0.21%	19,710,877	0.21%	19,602,694	0.20%	19,880,366	0.19%	19,880,366	0.19%	19,880,366	0.19%		
Grosvenor USA Ltd.	20,547,900	0.26%	20,958,658	0.26%	20,909,185	0.26%	21,066,630	0.26%	22,437,962	0.27%	22,886,720	0.25%	22,990,624	0.24%	23,449,975	0.23%	23,449,975	0.23%	23,449,975	0.23%	23,449,975	0.23%		
Health Care REIT Inc.	24,480,000	0.31%	24,969,600	0.31%	19,720,749	0.25%	19,869,245	0.24%	19,223,348	0.23%	20,671,860	0.22%	20,671,860	0.22%	20,671,860	0.22%	20,671,860	0.22%	20,671,860	0.22%	20,671,860	0.22%		
International Hotel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Kay Kiron and Go-Saak Sr., Trustees	35,000,000	0.44%	32,000,000	0.40%	45,778,757	0.57%	46,123,468	0.57%	47,045,934	0.56%	47,986,860	0.52%	47,986,860	0.52%	48,204,208	0.49%	49,167,836	0.47%	49,167,836	0.47%	49,167,836	0.47%		
Knowles Los Gatos LLC	2,783,903	0.35%	14,030,096	0.18%	39,960,114	0.50%	41,698,751	0.51%	42,352,721	0.50%	43,883,370	0.47%	43,883,370	0.47%	43,880,526	0.45%	43,880,526	0.45%	43,880,526	0.45%	43,880,526	0.45%		
KSC Capital Partners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
LG Business Park Bldg 3 LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
LG Business Park Bldg 4 LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
LG Business Park LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
LG Hotel LLC	-	-	-	-	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%	18,342,931	0.23%		
Los Gatos Hotel Corp.	-	-	13,906,273	0.17%	15,978,009	0.20%	15,683,979	0.19%	15,617,134	0.18%	18,134,822	0.20%	15,617,134	0.16%	15,617,134	0.15%	15,617,134	0.15%	15,617,134	0.15%	15,617,134	0.15%		
Lyon Baytree Apartments LLC	-	-	14,161,525	0.18%	14,111,407	0.18%	14,177,039	0.17%	14,430,123	0.17%	14,674,716	0.16%	14,674,716	0.16%	15,573,314	0.16%	15,573,314	0.16%	15,573,314	0.16%	15,573,314	0.16%		
Safeway Inc.	-	-	-	-	23,313,978	0.29%	29,369,137	0.36%	30,882,009	0.36%	33,626,381	0.36%	33,626,381	0.36%	36,693,453	0.38%	37,081,049	0.36%	37,081,049	0.36%	37,081,049	0.36%		
San Jose Water Works	19,934,491	0.25%	20,162,848	0.25%	23,313,978	0.29%	29,369,137	0.36%	30,882,009	0.36%	33,626,381	0.36%	33,626,381	0.36%	36,693,453	0.38%	37,081,049	0.36%	37,081,049	0.36%	37,081,049	0.36%		
SI 32 LLC	-	-	-	-	150,781,092	1.87%	157,556,525	1.93%	157,556,525	1.86%	169,809,676	1.84%	169,809,676	1.84%	208,699,238	2.01%	208,699,238	2.01%	208,699,238	2.01%	208,699,238	2.01%		
Sobrato Interests IV LLC	29,045,463	0.37%	29,626,371	0.37%	29,586,155	0.37%	29,778,712	0.37%	30,374,286	0.36%	30,981,711	0.34%	30,981,711	0.34%	31,122,427	0.32%	31,122,427	0.32%	31,122,427	0.32%	31,122,427	0.32%		
SHI Old Town LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Shimmerlin Project, Avenue LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Shimmerlin Project, Avenue LLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Wealthip Los Gatos 31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Wealthip Los Gatos 31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total - Principal taxpayers	561,809,638	7.07%	560,999,695	6.95%	582,218,627	7.26%	583,795,249	7.16%	584,030,904	6.90%	650,252,243	7.68%	663,137,202	6.37%	683,137,202	6.37%	683,137,202	6.37%	683,137,202	6.37%	683,137,202	6.37%		
Total - All real properties assessed by the Town (1)	\$ 7,949,991,620	-	\$ 8,076,202,207	-	\$ 8,151,530,237	-	\$ 8,151,530,237	-	\$ 8,464,491,112	-	\$ 9,237,887,880	-	\$ 9,237,887,880	-	\$ 9,766,665,025	-	\$ 9,766,665,025	-	\$ 10,416,786,877	-	\$ 10,416,786,877	-		
Total (1)	\$ 8,511,801,258	-	\$ 8,647,404,414	-	\$ 8,733,060,464	-	\$ 8,733,060,464	-	\$ 9,048,982,224	-	\$ 9,794,775,760	-	\$ 9,794,775,760	-	\$ 10,350,472,029	-	\$ 10,350,472,029	-	\$ 10,900,573,704	-	\$ 10,900,573,704	-		

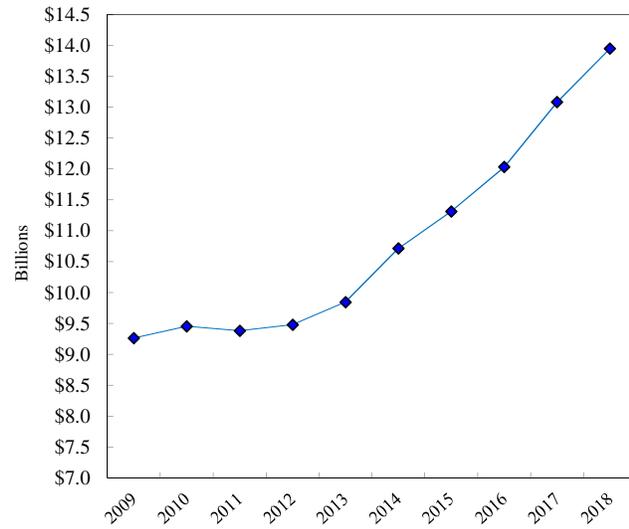
(1) Assessed value includes only net secured real properties.  
(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

**Tax Levied**



**Value of Property**



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
2009	7,465,403	8,574,251	16,039,654	8,166,393,709	1,096,883,582	9,263,277,291
2010	7,608,137	9,022,863	16,630,999	8,317,387,662	1,134,135,499	9,451,523,161
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,249,873,303	10,712,769,705
2015	9,787,519	-	9,787,519	9,995,113,547	1,318,214,863	11,313,328,410
2016	10,388,424	-	10,388,424	10,634,839,902	1,395,509,489	12,030,349,391
2017	11,345,588	-	11,345,588	11,544,997,211	1,537,577,241	13,082,574,452
2018	12,060,228	-	12,060,228	12,299,554,149	1,650,746,473	13,950,300,622

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

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

Schedule 9

Fiscal Year	Governmental Activities						
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
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%	-
2013	-	-	-	-	-	0.0%	-
2014	-	-	-	-	-	0.0%	-
2015	-	-	-	-	-	0.0%	-
2016	-	-	-	-	-	0.0%	-
2017	-	-	-	-	-	0.0%	-
2018	-	-	-	-	-	0.0%	-

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

2017/18 Assessed Valuation: \$ 12,299,554,149

DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable	(1)	Total Debt at June 30, 2018	Estimated Share of Direct and Overlapping Debt at June 30, 2018
<b>Overlapping Tax &amp; Assessment Debt</b>				
Santa Clara County	2.735%		\$ 1,012,400,000	\$ 27,689,140
West Valley-Mission Community College District	9.468%		495,110,000	46,877,015
Campbell Union High School District	8184.000%		210,265	17,208,088
Los Gatos-Saratoga Joint Union High School District	34.433%		105,845,000	36,445,609
Cambrian School District	0.265%		50,384,944	133,520
Campbell Union High School District	8.355%		176,094,922	14,712,731
Los Gatos Union School District	70.774%		85,175,000	60,281,755
Saratoga Union School District	0.034%		25,833,902	8,784
Union School District	20.946%		108,953,505	22,821,401
Midpeninsula Regional Open Space District	4.633%		93,350,000	4,324,906
Santa Clara Valley Water District Benefit Assessment District	2.735%		82,285,000	2,250,495
<b>Total Overlapping Tax and Assessment Debt</b>				<b>232,753,444</b>
<b>Overlapping General Fund Debt</b>				
Santa Clara County General Fund Obligations	2.735%		599,642,965	16,400,235
Santa Clara County Pension Obligations	2.735%		357,547,175	9,778,915
Santa Clara County Board of Education Certificates of Participation	2.735%		4,985,000	136,340
West Valley-Mission Community College District General Fund Obligations	9.468%		63,060,000	5,970,521
Campbell Union High School District General Fund Obligations	8.184%		10,000,000	818,400
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	34.433%		4,424,000	1,523,316
Campbell Union School District General Fund Obligations	8.355%		2,895,000	241,877
Saratoga Union School District Certificates of Participation	0.034%		3,905,000	1,328
Santa Clara County Vector Control District Certificates of Participation	2.735%		2,470,000	67,555
Midpeninsula Regional Open Space Park District General Fund Obligations	4.633%		123,040,600	5,700,471
<b>Total Gross Overlapping General Fund Debt</b>				<b>40,638,958</b>
Less: Santa Clara County Supported Obligations				<b>11,187,913</b>
<b>Total Overlapping General Fund Debt</b>				<b>29,451,045</b>
<b>Overlapping Tax Increment Debt ( Successor Agency)</b>				
Town of Los Gatos Certificated of Participations				17,680,000
<b>Total of Overlapping Tax Increment Debt</b>				<b>17,680,000</b>
<b>Total Direct Debt</b>				-
Total Gross Overlapping Debt				292,220,742
Total Net Overlapping Debt				281,032,829
Gross Combined Total Debt				291,072,402 (2)
Net Combined Total Debt				279,884,489

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

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

Ratios to 2015/16 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.89%  
 Total Direct Debt: 0.00%  
 Gross Combined Total Debt: 2.37%  
 Net Combined Total Debt: 2.28%

Ratios to Redevelopment Incremental Valuation ( \$1,327,219,986):

Total Overlapping Tax Increment Debt: 1.33%

Source Data: California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation  
 for Fiscal Year 2017/18

Assessed Value	\$ 11,198,237,798
Debt Limit	1,679,735,670
Debt Applicable to Limit:	
Legal Debt Margin	<u>\$ 1,679,735,670</u>

	Fiscal Year									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Debt Limit	\$ 1,102,766	\$ 1,185,727	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943	\$ 1,556,252	\$ 1,679,736
Debt Applicable to Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	\$ 1,102,766	\$ 1,185,727	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943	\$ 1,556,252	\$ 1,679,736

Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
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**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

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)
2009	30,497	1,701,153	55,781	45.35	6,006	11.8%
2010	30,802	1,787,070	58,018	45.09	6,100	11.3%
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.80	6,420	6.8%
2014	30,443	2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	2,286,087	72,861	46.30	6,646	3.5%
2017	31,314	2,281,569	72,861	46.50	6,631	3.8%
2018	30,601	2,290,638	74,855	46.81	6,588	2.6%

Source:

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

Town of Los Gatos  
Principal Employers  
Last Ten Fiscal Years

Principal Employers	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	Emp.	Percentage of Total Town Employment																		
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%	2,000	13.29%	2,000	13.52%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	800	4.92%	700	4.26%	700	4.41%	700	4.86%	700	4.65%	700	4.73%	560	3.73%	560	3.53%	560	3.49%	560	3.43%
Los Gatos Union School District	300	1.85%	300	1.83%	300	1.89%	275	1.91%	275	1.83%	237	1.60%	273	1.82%	280	1.76%	274	1.71%	267	1.64%
Los Gatos-Saratoga High School District	300	1.85%	300	1.83%	300	1.89%	270	1.88%	270	1.79%	256	1.73%	157	1.05%	157	0.99%	370	2.30%	367	2.25%
Netflix	-	0.00%	280	1.70%	800	5.04%	800	5.56%	900	5.98%	825	5.58%	1,530	10.19%	1,976	12.45%	1,864	11.61%	2,117	12.98%
Safeway	200	1.23%	250	1.52%	250	1.57%	250	1.74%	250	1.66%	250	1.69%	314	2.09%	314	1.98%	314	1.95%	314	1.92%
Alain Pinel Realtors	-	0.00%	220	1.34%	220	1.39%	150	1.04%	150	1.00%	156	1.05%	156	1.04%	146	0.92%	148	0.92%	131	0.80%
Verizon	200	1.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.23%	200	1.22%	200	1.26%	200	1.39%	200	1.33%	295	1.99%	440	2.93%	440	2.77%	468	2.91%	542	3.32%
Town of Los Gatos	189	1.16%	148	0.90%	138	0.87%	136	0.94%	138	0.92%	144	0.97%	157	1.05%	158	1.00%	160	1.00%	159	0.97%
Whole Foods	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	179	1.19%	179	1.13%	179	1.11%	179	1.10%
Vasona Creek Health Care Center	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	233	1.55%	233	1.47%	233	1.45%	233	1.43%
Good Samaritan Regional Cancer Center	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	200	1.33%	200	1.26%	200	1.25%	200	1.23%
Robu	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	487	3.07%	554	3.45%	664	4.07%
Terraces of Los Gatos	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	228	1.44%	228	1.42%	228	1.40%

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

Function/Program	Full-time-Equivalent Employees as of June 30									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
General Government	19.95	18.35	18.90	20.15	20.40	20.73	20.97	20.97	21.35	21.97
Police	61.00	60.00	59.50	60.50	58.00	57.50	60.00	59.00	59.00	59.00
Culture and Recreation	5.25	5.25	3.25	-	-	-	-	-	-	-
Economic Development	1.00	1.00	1.00	1.00	-	0.50	0.63	0.63	0.63	0.75
Library	10.35	10.35	8.60	8.60	8.60	10.30	10.80	11.00	12.25	12.25
Planning	18.80	17.80	15.00	16.00	17.50	17.50	19.50	19.00	19.26	19.63
Public Works	37.00	35.00	32.50	32.00	31.00	31.50	32.00	33.50	33.50	34.50
<b>Total</b>	<b>153.35</b>	<b>147.75</b>	<b>138.75</b>	<b>138.25</b>	<b>135.50</b>	<b>137.53</b>	<b>143.90</b>	<b>144.10</b>	<b>145.98</b>	<b>148.10</b>

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

Town of Los Gatos  
 Operating Indicators  
 Last Ten Fiscal Years

**FUNCTION/PROGRAM**

FUNCTION/PROGRAM	Fiscal Year									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>General government</b>										
Building Permits Issued	676	733	711	747	738	813	805	899	744	849
Residential Permits Issued	48,162,274	51,090,808	42,974,043	66,072,341	75,227,889	87,307,822	76,896,111	85,000,754	53,625,891	63,083,249
Commercial Permits Issued	24	117	128	107	137	139	133	147	135	105
Commercial Permits Value	4,356,307	7,908,146	31,289,431	17,663,124	46,855,615	138,676,507	178,195,997	20,185,884	50,024,177	16,626,196
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	76	87	96	89	125	133	127	107	118	113
Number of Annual Permits Issued	752	686	713	1,223	1,320	1,376	1,570	1,363	1,251	1,342
City Clerk										
Number of Council Resolutions Passed	143	167	76	59	74	86	72	61	69	69
Number of Ordinances Passed	13	16	6	13	20	16	9	11	5	17
Number of Contracts Passed	197	206	218	227	220	196	222	283	240	262
General Services										
Number of Purchase Orders Issued	396	365	336	358	318	301	277	334	331	322
<b>Police</b>										
Physical Arrests	925	831	872	690	648	641	695	987	1,030	1,164
Parking Violations	11,148	11,512	14,377	12,938	11,991	14,421	13,321	13,975	12,863	11,784
Traffic Violations	2,588	3,008	2,718	2,908	3,333	4,747	4,633	5,400	4,634	4,757
DUI Arrests	88	110	98	89	86	62	48	58	60	51
<b>Library</b>										
Circulated e-audiobooks	1,516	1,852	1,994	3,388	4,774	2,414 *	5,867 *	7,761	10,006	8,844
<b>Other Public Works</b>										
Street Resurfacing/Overlay/Reconstruction (miles)	3.5	4.7	4.7	8.0	8.0	10.0	1.8	8.0	10.0	2.6
ADA Compliance: Curb Ramps	9	13	17	19	19	19	23	11	30	68
Traffic Circles	1	1	1	1	1	-	1	1	1	1
Street Poles	1,575	1,605	1,708	1,611	1,611	1,611	1,609	1,609	1,609	1,762
<b>Planning and Development Department</b>										
Building & Safety Inspections Performed	10,367	9,055	10,977	11,738	11,902	12,764	11,652	8,655	14,722	13,918
Redevelopment: Number of active projects	3	3	1	-	-	-	-	-	-	-

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

Source: Town of Los Gatos, Finance Department

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

Function/Program	Fiscal Year									
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Police</b>										
Number of Stations	1	2	2	2	2	2	2	2	2	2
Number of Patrol Units	15	14	14	14	14	14	14	14	14	14
Parking Enforcement Vehicles	3	2	2	2	2	2	2	2	2	2
<b>Other Public Works</b>										
Streets (miles)	112	112	112	112	112	112	112	112	112	112
Streetlights	2,190	2,112	2,115	2,116	2,116	2,109	1,609	1,609	1,609	1,762
Traffic Signals	28	28	28	29	29	29	29	30	30	30
<b>Parks and Recreation</b>										
Number of Parks	12	12	12	12	12	12	12	12	12	12
Number of Community Centers	1	1	1	1	1	1	1	1	1	1
<b>Parking</b>										
Number of Parking Garages	1	1	1	1	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126	1,126

Source: Town of Los Gatos, Finance Department

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## **OTHER INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Los Gatos, California's basic financial statements, and have issued our report thereon dated December 24, 2018.

**Internal Control Over Financial Reporting**

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

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

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

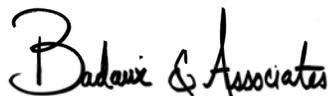
To the Honorable Mayor and Members of the Town Council  
of the Town of Los Gatos  
Los Gatos, California  
Page 2

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 24, 2018



