



# TOWN OF LOS GATOS

## CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**TOWN OF LOS GATOS  
CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2013**

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

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## TOWN HISTORY

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

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

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

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal of the community. From the first 100-acre town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 30,247. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

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

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

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## *Introductory Section*

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

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# TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December 24, 2013

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2013. This report was prepared by management and the Finance staff in the Town Manager's Department, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2013, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

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

This Comprehensive Annual Financial Report is organized into three sections:

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

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

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

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

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as “Silicon Valley.” From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 30,247. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community.

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

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

### **ECONOMIC CONDITIONS AND OUTLOOK**

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

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

General Fund revenues (including operating transfer-ins) increased by 3% from the prior year. The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 20% of General Fund revenues in FY 2012/13. The FY 2012/13 \$8.8 million sales tax receipts were \$1.1 million lower than the prior year's collection. This decrease in sales tax is due to a business model change in Netflix, an internet streaming provider, which previously accounted for nearly 40% of all sales tax received by the Town. However, overall the outlook for sales tax is promising as many businesses are reporting increased revenues. Therefore, given the change in the Netflix business model, diversification remains a top priority for the Town.

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

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

In addition, the Town is preparing for a sharp increase in CALPERS employer rates effective in 2015/16. Estimates indicate the Town may be paying 34% more in 10 years than it is currently costing the Town today. The Town has managed to limit the effects of State revenue reductions and expanding future costs due to increase CALPERS rates with pro-active strategic budgetary changes and expenditure reductions made on an organizational basis.

Despite the reductions to various state sources of local government revenue and mandated increased costs, the Town has maintained high service levels due to the General Fund's strong fiscal health through FY 2012/13. The Town continues to diligently outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

## **MAJOR INITIATIVES**

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$6.6 million in Town infrastructure and other capital asset improvements were made in FY 2012/13, including \$1.4 million for the development of a 2.5 acre sports park, \$1.0 million for the phase 3 completion of the Pageant Grounds, and \$500,000 for curb, gutter, sidewalk improvements, and retaining wall repairs. In addition, approximately \$2.9 million was invested in the Town's streets and roads, including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety.

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

## **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

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

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

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

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

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are

recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred.

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

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

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

### **AWARDS**

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

### **INDEPENDENT AUDIT**

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

### **ACKNOWLEDGEMENTS**

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

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Mayor and Town Council  
January 30, 2013

Respectfully submitted,



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Greg Larson  
Town Manager



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Stephen D. Conway  
Director of Finance & Administrative Services

**TOWN OF LOS GATOS  
PRINCIPAL OFFICERS  
JUNE 30, 2013**

**TOWN COUNCIL**

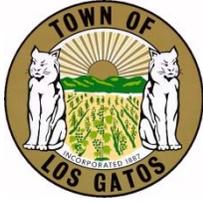
Mayor	Barbara Spector
Vice Mayor	Steve Leonardis
Council Member	Marcia Jensen
Council Member	Diane McNutt
Council Member	Joe Pirzynski

**COUNCIL APPOINTEES**

Town Manager	Greg Larson
Town Attorney	Judith Propp

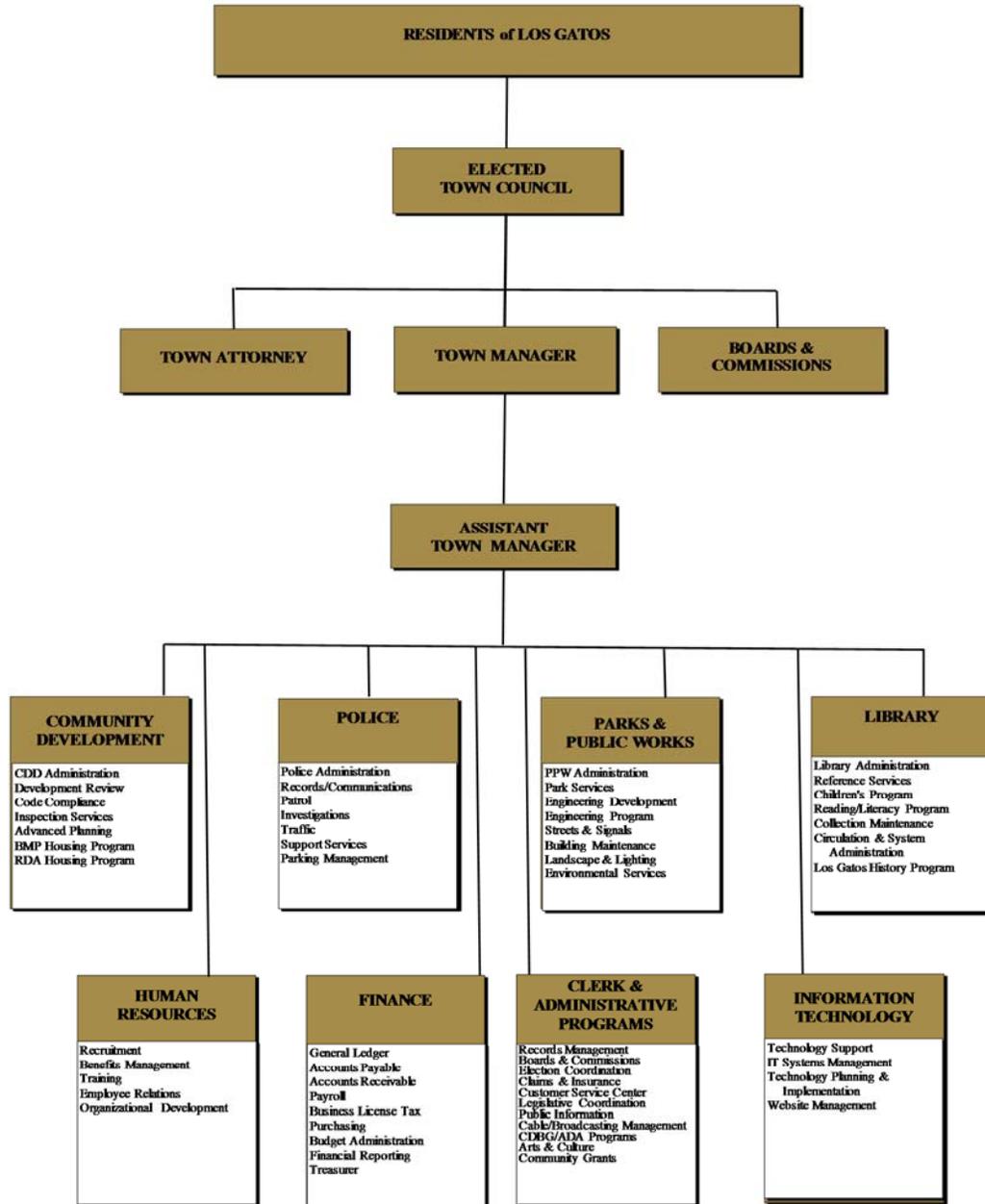
**APPOINTED OFFICIALS**

Assistant Town Manager	Pamela Jacobs
Chief of Police	Scott Seaman
Community Development Director	Wendie Rooney
Finance and Administrative Services Director	Stephen Conway
Human Resources Director	Rumi Portillo
Parks and Public Works Director	Todd Capurso
Town Librarian	



# Town of Los Gatos

## Organizational Structure





Government Finance Officers Association

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

Presented to

**Town of Los Gatos  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

## *Financial Section*



## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

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

### *Other Information*

As discussed in Note 1 to the financial statements, the Town adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012.

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

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

C & A LLP

December 22, 2013  
San Jose, California

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for fiscal year ending June 30, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- Town assets exceeded its liabilities at the close of FY 2013/14 by \$137,988,483 (net position). Of this amount, \$41,480,377 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's Net position increased by \$5,295,586 million due primarily to the extraordinary gain on the dissolution of the former Redevelopment agency, pursuant to the enactment of California Assembly Bill (AB) 1X26 that dissolved all Redevelopment Agencies in the State of California. Other contributing factors includes an increase of \$1.5 million in the Town's general accounts receivables and a decrease of the Town's overall liabilities by \$1.1 million, 5% lower compared to the prior fiscal year.
- Total fund balances for governmental funds at year end were \$38,464,575, an increase of \$1,788,263 (5%) from the prior year. The increase is mainly the result of the dissolution of the former Redevelopment Agency's fund balances, in accordance with AB 1X26.
- At the end of FY 2013/14, fund balance for the General Fund was \$28,260,602, approximately 83% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets increased by \$3,502,135 net of depreciation.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user

## MANAGEMENT'S DISCUSSION AND ANALYSIS

fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, redevelopment, and general government. The Town has no business-type activities.

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

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

### **Fund financial statements**

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

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

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

## MANAGEMENT’S DISCUSSION AND ANALYSIS

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

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

### Notes to basic financial statements

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

### Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets exceeded liabilities by \$138 million at the end of the current fiscal year.

	Governmental	
	Activities	
	2013	2012
Current and other assets	\$ 64,947,081	\$ 64,236,189
Capital assets	92,558,523	89,056,388
Total assets	157,505,604	153,292,577
Current liabilities	10,764,520	15,050,917
Long-term liabilities outstanding	8,752,601	5,548,763
Total liabilities	\$ 19,517,121	\$ 20,599,680
Net position		
Investment in capital assets, net of related debt	\$ 92,558,523	\$ 90,333,451
Restricted	3,949,583	5,167,236
Unrestricted	41,480,377	37,192,210
Total net position	\$ 137,988,483	\$ 132,692,897

Capital assets represent approximately 59% of the Town’s total assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the current year, *Net Investment in Capital Assets* increased by approximately \$2.2 million as a result of approximately \$3.5 million, net of construction in progress, in capital improvements made and approximately \$1.3 million in capital assets removed as a result of the RDA dissolution.

An additional portion of the Town's net position (3%) represents resources that are subject to external restrictions on how they may be used. The balance of *Unrestricted net position* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *Unrestricted net position* represent (30%) of the Town's net position at year end.

### Governmental activities

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 12,003,092	\$ 8,292,298
Operating grants and contributions	935,530	1,030,369
Capital grants and contributions	2,926,930	641,811
General Revenues:		
Property taxes	10,729,602	9,902,299
Property tax increments	-	4,510,833
Less : election amount	-	(324,266)
Total property taxes	10,729,602	14,088,866
Sales taxes	8,757,428	9,889,100
Franchise taxes	2,028,903	1,931,027
Other taxes	1,361,699	1,767,726
Motor vehicle in lieu	15,790	15,238
Investment earnings	(133,375)	331,420
Miscellaneous	1,154,647	2,275,160
Special item	1,534,456	11,864,453
Total revenues	\$ 41,314,702	\$ 52,127,468
Expenses:		
Police Department	\$ 13,731,754	\$ 14,124,798
Parks and Public Works	7,829,315	7,827,332
General Government	6,564,768	6,145,143
Community Development	4,094,188	3,434,551
Library Services	2,128,823	1,938,577
Redevelopment (Prnts to SA)	1,277,063	919,821
Interest and fees	-	1,123,842
Sanitation	393,205	158,205
Total expenses	\$ 36,019,116	\$ 35,672,269
Change in net position	5,295,586	16,455,199
Net position, beginning	132,692,897	116,237,698
Net position, ending	\$ 137,988,483	\$ 132,692,897

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As shown in the schedule above, governmental activities for the year increased the Town's net position by \$5,295,586. Key elements of the increase in net position are as follows:

- Property Tax revenues collected for the Town and the Redevelopment Agency accounted for 26% of total Town revenues. Property tax revenues for Town activities fell by \$3.4 million or 24%, from FY 11/12 due primarily to the dissolution of the redevelopment agency. Under AB 1X26, the former Redevelopment Agency did not receive its usual second-half-of-the-fiscal-year infusion of property tax increment revenue from the County of Santa Clara. Instead, this revenue was diverted to a new Real Property Tax Trust Fund administered by the County Auditor-Controller, out of which the Town, as Successor Agency to the Town of Los Gatos Redevelopment Agency, paid enforceable obligations with the excess distributed to underlying taxing entities.
- Sales Tax revenue of \$8.8 million accounted for 21% of Town total revenues for the year. The 11% decrease of approximately \$1.1 million from the prior year collections is due to the a business model change in Netflix, an internet streaming provider, which previously accounted for nearly 40% of all sales tax received by the Town.
- Other taxes, other revenues, and motor vehicle in lieu taxes of \$3,406,392 accounted for 8% of total revenues, decreasing by 8% from the prior year's amount of \$3,713,991. This decrease was primarily the result of the dissolution of the former Redevelopment Agency and its related other revenues.
- Investment earnings of (\$133,375), net of amortized premiums, decreased by \$464,795 from the prior year. This decrease due to a declining interest rate environment and for purposes of complying with the Governmental Accounting Standards Board - Statement No. 31 (GASB 31), the Town calculated an unrealized loss of \$549,990 on the Town's investment pool for the fiscal year.
- Total expenditures increased by \$346,847 or 1% from the prior year. This increase was primarily the result of increased expenditures in general government.

### FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

#### **Governmental funds**

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of FY 2013/14, the Town's governmental funds reported combined ending fund balances of \$38,464,575, an increase of \$1,788,263 in comparison with the prior year. This increase is primarily due to the dissolution of the Redevelopment Agency.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Approximately 90% or \$34,514,992 of the total amount of governmental fund balances of \$38,464,575 is assigned or unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is restricted and is not available for new spending because it has already been restricted to (1) provide for appropriated capital projects (\$3,799,736); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$149,847).

*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 9% from prior year balances to \$28,260,602 primarily as a result of an increase in revenues. The largest increase occurred in licenses & permits due to a recalculation of West Valley Solid Waste Program Authority (WVSWMA) fees. General Fund expenditures (excluding transfers-out) increased by 7% from the prior fiscal year primarily due to a previously bargained increase for Public Safety Officers and benefit cost payments related to the Town's pension and post-retirement medical plans for both safety and non-safety employees. Additionally, the General Fund absorbed administrative and other costs effective February 1, 2012 from the former Redevelopment Agency.

### *Other Major Funds*

General Fund Appropriated Reserve (GFAR) Capital Projects Fund. The GFAR fund is used as the primary capital projects fund for the Town and is used for the acquisition and construction of major capital projects in the Town. Fund balances decreased to \$6,097,182 primarily due to capital spending made on the new library building during the fiscal year.

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

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

Other Non-Major Other Governmental Funds. These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds increased by \$109,511.

### **Proprietary funds**

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

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Equipment Replacement Fund charges replacement costs and the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year end for both funds was \$499,341 and \$80,085 respectively versus \$39,510 and \$82,893 in the prior year. The decrease in operating income in the Vehicle Maintenance Fund from the prior year is attributable to the contracting out maintenance services to reduce General Fund operating expenses. The increase in Equipment Replacement Fund is attributable to the cyclical nature of fleet purchases in accordance with the Town’s fleet replacement schedule.

The Building Maintenance, Stores, and Management Information Systems funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail and office inventory and duplication charges, and management information services. Net operating income (loss) before transfers at year end was \$240,844, (\$47,357) and \$22,352 respectively. Revenues exceeded expenditures in the Building Maintenance Fund due to decreased heating, ventilation and air conditioning maintenance and repair costs experienced in the prior year. The office store expenditures increased because of the additional copiers added to the maintenance lease for the New Library building during FY 2013/14. Management information systems also experienced savings on anticipated repairs and replacements.

The Worker’s Compensation and Self Insurance Fund charge premiums based on exposure levels by department for liability, property, Worker’s Compensation and Self Insurance costs. Net operating income before transfers at year end was (\$53,723) and (\$243,106) respectively, versus (\$509,246) and (\$470,928) in the prior year. The decrease of Operating income for the year in the Worker’s Compensation and Self Insurance funds reflects the adverse experience of loss claims in the current year from the prior year in Worker’s Compensation and general liability claim payments and settlements.

**GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:**

**Budget Adjustments**

Comparing the FY 2013/14 original budget (or adopted) General Fund Expenditures of \$33,279,293 (excluding budgeted transfers-out), the final budget amount of \$34,392,465 shows a net increase of \$1,113,172. Additions to the original budget included approved additions of \$1,113,172 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carryforwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$33,279,293	\$-0-	\$-0-	\$1,113,172	\$34,392,465

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

- \$348,800 increase is related to development “pass-thru” activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- \$225,000 in Patrol for public safety to fund additional overtime incurred as a result of a local homicide investigation.
- \$190,000 increase to the Below Market Price Housing Program.
- \$70,000 to increase to police staffing salaries to fund additional staff time as a result of the parole realignment revenues received from the state.
- \$62,500 increase in Next Door Solutions to Domestic Violence for PD partnership to provide assistance to domestic violence victims.
- \$55,000 increase to administer the Town's Below Market Price Affordable Housing Program.
- \$50,000 increase to fund the design phase of the Winchester/Lark intersection project which will construct a new northbound lane, relocate signal poles, restripe the intersection and reconfigure the traffic signal system.
- \$13,652 increase in grant money from the Santa Clara Public Health Department for Obesity Prevention to aid the Town in expanding obesity prevention efforts.

Comparing the FY 2013/14 final amended budget to the actual result shows \$4.9 million in operational savings due to various cost saving methods. These steps included selected hiring freezes, strategic expenditure slowdowns, and departmental cost saving efficiencies among other strategies.

### Capital Assets

As of June 30, 2013, the Town's investment in capital assets for its governmental activity is recorded at \$92,558,523 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2012/13 the Town's \$6.6 million investment in capital assets for the current year represented approximately 4% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$2.9 million for street improvements;
- \$1.4 million for the Los Gatos Creekside Sports Park;
- \$1.0 million for Phase 3 completion of the Pageant Grounds;
- \$.81 million traffic signal improvements;
- \$.50 million for curb, gutter and sidewalk improvements and retaining wall.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Town of Los Gatos

### Capital Assets (net of accumulated depreciation)

	Governmental Activities
Land	\$ 20,333,684
Construction in progress	179,723
Buildings	23,740,924
Equipment	2,214,422
Infrastructure	46,089,770
	<u>\$ 92,558,523</u>

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

### Economic Factors and Next Year's Budgets and Rates

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

During the development and adoption of the Town's FY 2013/14 budget, the Town Council and management considered the following factors:

- The Town anticipates a decline in sales tax growth for FY 2013/14. Sales tax estimates for FY 2013/14 were budgeted reflecting a 1% decline from the prior year's adopted sales tax of approximately \$7.9 million dollars. While the economy is turning around and primarily sales tax revenue is up in most industries the Town is still being impacted by the business model change in Netflix, an internet streaming provider, which previously accounted nearly 40% of all sales tax received by the Town. With sales tax representing approximately 24% of the Town's General Fund revenues, any fluctuation in local sales tax collections will significantly impact the Town.
- General property tax collections represent approximately 24% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues and anticipated to experience a slight decrease of 3% based on data from the Santa Clara County Tax Assessor's Office. Los Gatos is one of the few cities in Santa Clara County that did not encounter significant loss of assessed valuation due to the recent recession and expects positive growth for FY 2013/14. The decrease in property tax is largely attributable to overestimated growth predicted by the Santa Clara County Tax Assessor's Office in 2012 and a lower than expected CPI increase for the County, below the 2% cap for valuation increases.
- The Town's investment portfolio experienced a decline in its overall weighted average annual yield, lowering from 1.46% at June 30, 2011 to 0.97% at June 30, 2013. As a result of declining interest rates for FY 2013/14, and reduced cash balances due to significant

## MANAGEMENT'S DISCUSSION AND ANALYSIS

capital expenditures, investment earnings are expected to be lower than the prior year. Budgeted estimates have been reduced to \$421,656 from the adjusted budget estimate to \$979,849 from the prior year.

- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2013/14 as personal and business related travel is gaining strength. Given the increase in travel activity, the FY 2013/14 TOT revenues were budgeted at \$1,000,000 reflecting an 8% decrease from the FY 2012/13 adopted budget but an overall 2% increase from actual revenues received in FY 2012/13.

### **Requests for Information**

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

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## ***Basic Financial Statements***

**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, CALIFORNIA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 59,028,889
Restricted cash and investments (Note 2)	18,653
Receivables:	
Accounts	2,852,366
Interest	137,490
Intergovernmental	1,512,092
Materials, supplies and deposits	24,396
Long term notes receivables (Note 3)	1,373,195
Capital Assets (Note 5):	
Nondepreciable	20,513,407
Depreciable, net of accumulated depreciation	72,045,116
Total Assets	\$ 157,505,604
<b>LIABILITIES</b>	
Accounts payable	\$ 1,078,892
Accrued payroll and benefits	3,926,139
Due to other governments	8,394
Deposits	3,275,826
Claims payable (Note 11)	1,149,295
Long-term liabilities:	
Due within one year	
Compensated absences (Note 1)	1,325,974
Due in more than one year	
Post retirement benefits (Note 10)	3,484,860
Compensated absences (Note 1)	1,125,457
Total Liabilities	\$ 15,374,837
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unearned Revenue	\$ 4,142,284
<b>NET POSITION (Note 1)</b>	
Net investment in capital assets	\$ 92,558,523
Restricted for:	
Capital projects	3,799,736
Lighting and landscape repairs and maintenance	149,847
Total Restricted Net Position	3,949,583
Unrestricted	41,480,377
Total Net Position	\$ 137,988,483

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

**TOWN OF LOS GATOS, CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenues and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental Activities:</b>					
General government	\$ 6,564,768	\$ 1,416,593	\$ 8,406	\$ 169,270	\$ (4,970,499)
Public safety	13,731,754	2,450,630	91,360	-	(11,189,764)
Parks and public works	7,829,315	3,032,435	835,724	2,757,660	(1,203,496)
Community development	4,094,188	4,649,444	-	-	555,256
Library services	2,128,823	50,696	40	-	(2,078,087)
Sanitation	393,205	403,294	-	-	10,089
Payments to Successor Agency	1,277,063	-	-	-	(1,277,063)
<b>Total Governmental Activities</b>	<b>\$ 36,019,116</b>	<b>\$ 12,003,092</b>	<b>\$ 935,530</b>	<b>\$ 2,926,930</b>	<b>(20,153,564)</b>
<b>General revenues and special items:</b>					
Taxes:					
Property taxes					10,729,602
Sales taxes					8,757,428
Franchise taxes					2,028,903
Other taxes					1,361,699
Motor vehicle in lieu					15,790
Investment earnings					(133,375)
Miscellaneous					1,154,647
<b>Special items:</b>					
Gain (loss) on the sale of property					54,425
Extraordinary gain (loss) on dissolution of Redevelopment Agency					1,480,031
<b>Total general revenues and special items</b>					<b>25,449,150</b>
<b>Change in Net Position</b>					<b>5,295,586</b>
<b>Net Position - Beginning</b>					<b>132,692,897</b>
<b>Net Position - Ending</b>					<b>\$ 137,988,483</b>

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, 2013**  
**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, 2013. Individual non-major funds can be found in the supplemental section.

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

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

**TOWN OF LOS GATOS, CALIFORNIA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2013**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & Investments	\$ 35,062,449	\$ 7,241,050	\$ 3,993,338	\$ 46,296,837
Receivables:				
Accounts	1,353,390	1,353,000	143,768	2,850,158
Interest	137,490	-	-	137,490
Intergovernmental	1,276,652	85,500	149,940	1,512,092
Due from Other Funds	21,708	-	-	21,708
Total Assets	<u>\$ 37,851,689</u>	<u>\$ 8,679,550</u>	<u>\$ 4,287,046</u>	<u>\$ 50,818,285</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 749,780	\$ 76,875	\$ 4,636	\$ 831,291
Accrued Payroll and Benefits	3,904,585	-	1,753	3,906,338
Due to other governments	7,976	404	-	8,380
Deposits	3,275,826	-	-	3,275,826
Due to Other Funds	-	-	21,708	21,708
Compensated Absences	167,883	-	-	167,883
Total Liabilities	<u>8,106,050</u>	<u>77,279</u>	<u>28,097</u>	<u>8,211,426</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned Revenue	<u>\$ 1,485,037</u>	<u>\$ 2,505,089</u>	<u>152,158</u>	<u>4,142,284</u>
<b>FUND BALANCE (Note 8)</b>				
Restricted for:				
Capital Outlay	-	-	3,799,736	3,799,736
Repairs and Maintenance	-	-	149,847	149,847
Assigned to:				
Vasona Land Sale	410,599	-	-	410,599
Open Space	562,000	-	-	562,000
Post Retirement Medical	400,000	-	-	400,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Productivity Enhancements	100,000	-	-	100,000
Economic Uncertainty	4,178,192	-	-	4,178,192
Capital Projects	12,377,360	4,591,738	-	16,969,098
Carryover	56,741	-	-	56,741
Comcast PEG	-	45,234	-	45,234
Revenue Stabilization Fund	6,721,808	-	-	6,721,808
Special Studies	490,000	-	-	490,000
Year End Budget Savings	490,000	-	-	490,000
Compensated Absences	2,333,349	-	-	2,333,349
Unassigned	-	-	157,208	157,208
Total Fund Balances	<u>28,260,602</u>	<u>6,097,182</u>	<u>4,106,791</u>	<u>38,464,575</u>
Total Liabilities, Fund Balances and Deferred Inflows of Resources	<u>\$ 37,851,689</u>	<u>\$ 8,679,550</u>	<u>\$ 4,287,046</u>	<u>\$ 50,818,285</u>

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

**TOWN OF LOS GATOS, CALIFORNIA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET  
POSITION – GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013**

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<b>Fund Balance - Total Governmental Funds</b>		\$ 38,464,575
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:</p>		
<b>CAPITAL ASSETS</b>		
Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.		92,558,523
<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.		11,360,601
<b>LONG-TERM LIABILITIES</b>		
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.		
Post Retirement Benefits	(3,484,860)	
Compensated absences	(2,283,551)	(5,768,411)
<b>LONG-TERM NOTES RECEIVABLES</b>		
In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by unearned revenue.		1,373,195
<b>Net Position - Governmental Activities</b>		<b>\$ 137,988,483</b>

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

**TOWN OF LOS GATOS, CALIFORNIA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 11,875,862	\$ -	\$ 41,238	\$ 11,917,100
Sales Taxes	8,757,428	-	-	8,757,428
Other Taxes	3,336,756	302,028	283,487	3,922,271
Licenses & Permits	4,015,871	-	-	4,015,871
Intergovernmental	924,657	788,095	902,439	2,615,191
Charges for Services	4,711,280	1,414,660	403,294	6,529,234
Fines and Forfeitures	688,110	-	15	688,125
Interest	(163,070)	-	29,690	(133,380)
Use of Property	38,910	-	-	38,910
Other	3,168,200	1,397,871	11,513	4,577,584
<b>Total Revenues</b>	<b>37,354,004</b>	<b>3,902,654</b>	<b>1,671,676</b>	<b>42,928,334</b>
<b>EXPENDITURES</b>				
Current:				
General Government	8,318,214	-	-	8,318,214
Public Safety	13,370,032	-	-	13,370,032
Parks and Public Works	5,599,022	-	17,175	5,616,197
Community Development	4,235,832	-	13,230	4,249,062
Library Services	2,055,069	-	-	2,055,069
Sanitation and Other	-	-	359,725	359,725
Capital Outlay	402,842	5,273,966	891,845	6,568,653
Payments to Successor Agency	-	1,277,063	-	1,277,063
<b>Total Expenditures</b>	<b>33,981,011</b>	<b>6,551,029</b>	<b>1,281,975</b>	<b>41,814,015</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,372,993</b>	<b>(2,648,375)</b>	<b>389,701</b>	<b>1,114,319</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (Note 4)	623,096	2,218,785	-	2,841,881
Transfers (out) (Note 4)	(2,043,695)	(139,965)	(280,190)	(2,463,850)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,420,599)</b>	<b>2,078,820</b>	<b>(280,190)</b>	<b>378,031</b>
Extraordinary Gain (Loss) - RDA Dissolution	295,913	-	-	295,913
<b>NET CHANGES IN FUND BALANCES</b>	<b>2,248,307</b>	<b>(569,555)</b>	<b>109,511</b>	<b>1,788,263</b>
<b>BEGINNING FUND BALANCES</b>	<b>26,012,295</b>	<b>6,666,737</b>	<b>3,997,280</b>	<b>36,676,312</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 28,260,602</b>	<b>\$ 6,097,182</b>	<b>\$ 4,106,791</b>	<b>\$ 38,464,575</b>

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

**TOWN OF LOS GATOS, CALIFORNIA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>		<b>\$ 1,788,263</b>
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:</p>		
<b>CAPITAL ASSET TRANSACTIONS</b>		
<p>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.</p>		
Expenditures for capital assets (additions)	\$ 6,555,861	
Current year depreciation	<u>(3,098,760)</u>	3,457,101
<p>Gains and losses from the disposal of capital assets are not considered current financial resources and are not recorded in the governmental funds Statement of Revenues and Expenditures but are recorded in the government-wide Statement of Activities because they are economic resources.</p>		
		54,425
<b>ACCRUAL OF NON-CURRENT ITEMS</b>		
<p>The amounts below included in the Statement of Activities do not require the use of current financial resources and therefore are not reported in the governmental funds:</p>		
Compensated absences		240,935
Post retirement benefits		(602,953)
<b>ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY</b>		
<p>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.</p>		
		120,406
<b>LONG TERM NOTES RECEIVABLES AND ASSOCIATED UNEARNED REVENUE</b>		
<p>Interest income and proceeds from long term notes receivables are recorded on the Statement of Activities but are considered a resource not available for governmental funds.</p>		
		<u>237,409</u>
<b>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 5,295,586</u></b>

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

**TOWN OF LOS GATOS, CALIFORNIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 10,293,937	\$ 10,248,064	\$ 11,875,862	\$ 1,627,798
Sales Taxes	7,859,000	7,442,856	8,757,428	1,314,572
Other Taxes	3,043,720	3,019,699	3,336,756	317,057
Licenses & Permits	3,217,920	3,716,158	4,015,871	299,713
Intergovernmental	801,173	768,294	924,657	156,363
Charges for Services	3,174,074	4,238,540	4,711,280	472,740
Fines and Forfeitures	698,440	638,809	688,110	49,301
Interest	608,566	421,656	(163,070)	(584,726)
Use of Property	37,223	37,223	38,910	1,687
Other	2,519,025	2,586,085	3,168,200	582,115
<b>Total Revenues</b>	<b>32,253,078</b>	<b>33,117,384</b>	<b>37,354,004</b>	<b>4,236,620</b>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Town Council	213,057	211,516	185,084	26,432
Town Attorney	228,809	225,451	207,746	17,705
Administrative Services	2,899,736	2,874,922	2,659,062	215,860
Non-Departmental	5,122,190	5,323,456	5,266,322	57,134
<b>Total General Government</b>	<b>8,463,792</b>	<b>8,635,345</b>	<b>8,318,214</b>	<b>317,131</b>
Public Safety	13,388,960	13,772,877	13,370,032	402,845
Community Development	3,518,947	3,995,966	4,235,832	(239,866)
Parks & Public Works	5,714,904	5,813,969	5,599,022	214,947
Library Services	2,192,690	2,174,308	2,055,069	119,239
Capital Outlay	-	-	402,842	(402,842)
<b>Total Expenditures</b>	<b>33,279,293</b>	<b>34,392,465</b>	<b>33,981,011</b>	<b>411,454</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>(1,026,215)</b>	<b>(1,275,081)</b>	<b>3,372,993</b>	<b>4,648,074</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	536,920	536,920	623,096	86,176
Operating Transfers Out	(1,900,000)	(1,900,000)	(2,043,695)	(143,695)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,363,080)</b>	<b>(1,363,080)</b>	<b>(1,420,599)</b>	<b>(57,519)</b>
Extraordinary Gain (Loss) - RDA Dissolution	-	-	295,913	295,913
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (2,389,295)</b>	<b>\$ (2,638,161)</b>	<b>2,248,307</b>	<b>\$ 4,886,468</b>
<b>BEGINNING FUND BALANCE</b>			<b>26,012,295</b>	
<b>ENDING FUND BALANCE</b>			<b>\$ 28,260,602</b>	

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, 2013**

**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.

**TOWN OF LOS GATOS, CALIFORNIA  
 PROPRIETARY FUNDS -  
 STATEMENT OF NET POSITION  
 JUNE 30, 2013**

	Governmental Activities Internal Service Funds
<b>ASSETS</b>	
Current Assets:	
Cash & investments (Note 2)	\$ 12,732,052
Restricted cash & investments (Note 2)	18,653
Accounts Receivable	2,208
Materials, supplies, and deposits	24,396
Total current assets	12,777,309
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Note 5)	11,292
Total noncurrent assets	11,292
 Total Assets	 \$ 12,788,601
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 247,598
Accrued payroll and benefits	19,801
Due to other governments	14
Claims payable (Note 11)	1,149,295
 Total Liabilities	 \$ 1,416,708
<b>NET POSITION (Note 1)</b>	
Invested in capital assets, net of related debt	\$ 11,292
Restricted for workers compensation claims	18,653
Unrestricted	11,341,948
 Total Net Position	 \$ 11,371,893

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

**TOWN OF LOS GATOS, CALIFORNIA  
 PROPRIETARY FUNDS -  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET POSITION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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	Governmental Activities Internal Service Funds
<b>OPERATING REVENUES</b>	
Charges for services	\$ 4,221,909
Interest	10
Use of money and property	177,785
Other	213,718
	4,613,422
<b>OPERATING EXPENSES</b>	
Salaries and related expenses	1,047,268
Insurance expenses	506,922
Depreciation	9,391
Services and Supplies	2,551,405
	4,114,986
Operating Income	498,436
Transfers in (Note 4)	-
Transfers out (Note 4)	(378,030)
	(378,030)
Net transfers	(378,030)
Change in Net Position	120,406
<b>BEGINNING NET POSITION</b>	11,251,487
<b>ENDING NET POSITION</b>	\$ 11,371,893

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

**TOWN OF LOS GATOS, CALIFORNIA  
 PROPRIETARY FUNDS -  
 STATEMENT OF CASH FLOWS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Governmental Activities Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 4,623,639
Payments to suppliers	(1,690,046)
Payments to employees	(1,046,526)
Claims paid	(1,222,145)
Net cash provided (used) by operating activities	664,922
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers In	-
Transfers Out	(378,030)
Net cash provided (used) by noncapital financing activities	(378,030)
Net Increase(Decrease) in Cash and Investments	286,892
Cash and investments - beginning of year	12,463,813
Cash and investments - end of year	\$ 12,750,705
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities:</b>	
Operating Income	\$ 498,436
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	9,391
Change in assets and liabilities:	
Receivables, net	10,217
Other assets	16,235
Accounts payable and other accrued expenses	97,659
Other accrued expenses	32,984
Cash Flows From Operating Activities	\$ 664,922

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, 2013**

**FIDUCIARY FUNDS**

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

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

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

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

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

**TOWN OF LOS GATOS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2013**

	Total Private Purpose Trust Funds	Agency Fund Parking Improvement District #88
<b>ASSETS</b>		
Cash and investments (Note 2)	\$ 2,640,562	\$ 23,897
Restricted cash and investments (Note 2)	2,005,931	286,447
Accounts receivable	416	-
Intergovernmental receivable	-	6,158
Loans receivable (Note 3)	505,441	-
Capital assets (Note 5):		
Nondepreciable	5,257,422	-
Depreciable, net of accumulated depreciation	2,135,545	-
 Total Assets	 <u>12,545,317</u>	 <u>\$ 316,502</u>
<b>LIABILITIES</b>		
Accounts payable	37,100	\$ -
Due to other governments (Note 13)	217	316,502
Interest payable	416,532	-
Long-term debt (Note 6):		
Due within one year	955,000	-
Due in more than one year	22,505,130	-
 Total Liabilities	 <u>23,913,979</u>	 <u>\$ 316,502</u>
<b>NET POSITION</b>		
Held in trust	<u>(11,368,662)</u>	
 Total Net Position	 <u>\$ (11,368,662)</u>	

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

**TOWN OF LOS GATOS  
PRIVATE PURPOSE TRUST FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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	Total
<b>ADDITIONS</b>	
Property taxes	\$ -
Investment earnings	55,916
Gifts, bequests and endowments	28,150
Repayment of Town obligations	1,277,063
Other	4,171,849
	5,532,978
 <b>DEDUCTIONS</b>	
Program expenses of former RDA	340,095
Payments to other governments	295,913
Interest and fiscal agency expenses of RDA	3,123,866
Library services	135,631
Depreciation expense	101,693
	3,997,198
 Total Deductions	 3,997,198
 Extraordinary Gain (Loss) - RDA Dissolution	 (358,986)
 <b>CHANGE IN NET POSITION</b>	 1,176,794
 <b>NET POSITION - BEGINNING OF YEAR</b>	 (12,545,456)
 <b>NET POSITION - END OF YEAR</b>	 \$ (11,368,662)

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, 2013**

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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, emergency management and fire services), parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and redevelopment. Redevelopment services were provided primary through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2013 was 30,247.

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

**B. Description of Blended Component Units**

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

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

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

**D. Basis of Presentation**

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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*Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments; Omnibus, and No. 38, Certain Financial Statement Note Disclosures.*

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

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

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

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

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

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

**E. Major Funds**

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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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.

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

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

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

The Town also reports the following fund types:

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

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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- **Barberra J. Cassin Private Purpose Trust Fund** is a bequest to the Town from the estate of Barberra J. Cassin was established to be distributed to the Los Gatos Public Library for the purpose of establishing an endowment fund, which is to be used for the support of science, the arts and humanities projects.

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

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

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

**F. Basis of Accounting**

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

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

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

**Investments** - Town investments are reported at fair value. The value is determined based upon market closing prices. The fair value of mutual funds is stated at share value.

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

**Interfund Receivables and Payables** - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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“advances to/advances from other funds”. All other outstanding balances between funds are reported as “due to/from other funds”.

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

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

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

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

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

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

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

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

**Compensated Absences** - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current

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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	\$ 2,666,855
Additions	1,429,994
Payments	<u>(1,645,418)</u>
Ending Balance	<u>\$ 2,451,431</u>
Current Portion	<u><u>\$ 1,325,974</u></u>

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

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

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

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

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**Deferred Outflows/Deferred Inflows of Resources** - Deferred outflows of resources is a consumption of net assets 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 assets by the Town that is applicable to a future reporting period, for example, unearned revenue and advance collections.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Subsequent Events** - Management has considered subsequent events through December 22, 2013, the date which the financial statements were available to be issued. Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date through December 22, 2013. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

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

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

	<b><u>Secured</u></b>	<b><u>Unsecured</u></b>
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.

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

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

**Excess of Expenditures over Appropriations** - Expenditures exceeded budget by \$239,866 in the General Fund and \$1,277,063 in the Appropriated Reserves fund due to unanticipated community development costs and payments to the RDA Successor Agency. No other general fund or special revenue funds have expenditures in excess of budget for the year ended June 30, 2013.

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

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

**G. Newly Implemented Accounting Pronouncements**

**Statement No. 63** - In June, 2012, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of Net Position by the government that is applicable to a future

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reporting period, and an acquisition of Net Position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement were effective as of July 1, 2012 and did not have a significant impact on the Town's financial statements.

**Statement No. 64** - In June, 2012, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when swap counterparty or a swap counterparty's credit support provider is replaced. This pronouncement is effective for financial statements for periods beginning after June 15, 2012. The Town has determined this Statement change will not have an effect on the financial statements.

**Statement No. 65** - In March, 2013, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. However, the Town has chosen to implement these reporting requirements as of July 1, 2012. This statement did not have a significant impact on the Town's financial statements.

#### **H. Upcoming Accounting and Reporting Changes**

**Statement No. 66** - In March, 2013, GASB issued Statement No. 66, *Technical Correction – 2013 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The City does not believe there will be a significant financial statement effect related to this Statement.

**Statement No. 67** - In June, 2013, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – amendment of GASB Statement No. 25*. The objective of this Statement is to

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improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regards to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The Town is in the process of determining the impact this statement will have on the financial statements.

**Statement No. 68** - In June, 2013, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The Town is in the process of determining the impact this statement will have on the financial statements.

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

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

## **NOTE 2 - CASH AND INVESTMENTS**

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

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

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

The bank balance of the Town's cash deposits was \$13,967,391 as of June 30, 2013. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to \$250,000 for each bank. As of June 30, 2013, the Town's cash balances exceeded FDIC by \$13,467,391 but were collateralized as discussed above.

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

The Town invests in the California State Treasurer’s Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2013, LAIF had approximately \$59 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The Town’s investments with LAIF at June 30, 2013 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows:

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

As of June 30, 2013, the Town had \$4,149,985 invested in LAIF, which had invested .82% of the pool investments funds in Structured Notes and Asset-Backed Securities. The Town valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor was 1.00027 and was the result of dividing all LAIF participants’ total aggregate fair value by total aggregate amortized cost.

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

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

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

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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, 2013.

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

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

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

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2013:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Investment Rating	Concentration of Credit Risk	Time to Mature (Years)	Weighted Average Maturity
U.S. Government Agency securities	\$ 46,464,173	\$ -	\$ 46,464,173	Aaa/AAA	92%	2.94	2.70
Government Securities Money							
Market Mutual Funds	17,341	-	17,341	Not Rated	0%		
LAIF	4,149,985	39,358	4,189,343	Not Rated	8%	0.76	0.06
Total Investments	50,631,499	39,358	50,670,857		<u>100%</u>		
Cash Deposits with Banks	11,057,749	18,653	11,076,402				
Money Market Accounts	-	2,253,020	2,253,020				
Cash on hand at Town	4,100	-	4,100				
Total Cash and Investments	<u>\$ 61,693,348</u>	<u>\$ 2,311,031</u>	<u>\$ 64,004,379</u>				

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

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

	Total Town	Fiduciary Funds	Totals
Cash and investments available for operations	\$ 59,028,889	2,664,459	\$ 61,693,348
Restricted cash and investments	18,653	2,292,378	2,311,031
Total cash and investments	\$ 59,047,542	\$ 4,956,837	\$ 64,004,379

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

The Town had the following long-term notes receivable as of June 30, 2013:

Description	Interest Rate	Maturity	Balance
<b>General Fund:</b>			
Open Doors Associates, Ltd.	7%	2024	\$ 768,965
BMP Loans	3%	Various	231,117
Total General Fund			1,000,082
<b>Community Development Block Grant Fund (CDBG):</b>			
Active Home Loans	Various	Various	173,101
Open Doors Associates, Ltd.	7%	2024	101,352
Housing Conservation Loans	0-5%	Various	98,660
Total CDBG			373,113
Total Long-Term Notes Receivable - Government-wide Statement of Net Position			1,373,195
<b>Successor Agency Affordable Housing:</b>			
Project Match	Various	Various	505,441
Total Long-Term Notes Receivable			\$ 1,878,636

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

Under a note dated April 21, 1992, the Town agreed to loan a maximum amount of \$339,250 to Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. As of June 30, 2013, \$768,965 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the project and advances by the Town under this note.

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

**Project Match** - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four or five bedroom single family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2013, no interest or principal payments have been made.

**NOTE 4 - INTERFUND TRANSACTIONS**

**Inter-fund Receivables and Payables** - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2013, inter-fund receivables and payables consisted of the following:

	Due to Other Funds	Due From Other Funds
General Fund	\$ -	\$ 21,708
Non-Point Source Maintenance Fund	21,708	-
Totals	\$ 21,708	\$ 21,708

**Transfers** - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2013 were as follows:

Funds Making Transfers	Fund Receiving Transfers		Total Transfers Out
	General Fund	Appropriated Reserve	
General Fund	\$ -	\$ 2,043,695	\$ 2,043,695
Appropriated Reserve	139,965	-	139,965
Internal Service Funds	372,211	5,820	378,031
Nonmajor Governmental	110,920	169,270	280,190
Total Transfers In	\$ 623,096	\$ 2,218,785	\$ 2,841,881

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**NOTE 5 - CAPITAL ASSETS**

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

	Balance at June 30, 2012	Adjustments and Additions	Retirements	Balance at June 30, 2013
Capital Assets not being depreciated:				
Land	\$ 20,329,684	\$ 4,000	\$ -	\$ 20,333,684
Construction in Progress	3,360,517	130,840	3,311,634	179,723
Total capital assets not being depreciated	<u>23,690,201</u>	<u>134,840</u>	<u>3,311,634</u>	<u>20,513,407</u>
Capital Assets being depreciated:				
Buildings and Improvements	27,522,449	658,479	-	28,180,928
Equipment & Vehicle	9,688,964	188,496	884,883	8,992,577
Infrastructure - All Other	14,508,908	5,353,499	-	19,862,407
Infrastructure - Streets	48,484,153	3,596,066	-	52,080,219
Total capital assets being depreciated	<u>100,204,474</u>	<u>9,796,540</u>	<u>884,883</u>	<u>109,116,131</u>
Less accumulated depreciation for:				
Buildings and Improvements	3,809,420	630,584	-	4,440,004
Equipment & Vehicle	7,199,581	453,997	875,423	6,778,155
Infrastructure - All Other	1,618,997	559,082	-	2,178,079
Infrastructure - Streets	22,210,289	1,464,488	-	23,674,777
Total accumulated depreciation	<u>34,838,287</u>	<u>3,108,151</u>	<u>875,423</u>	<u>37,071,015</u>
Net capital assets being depreciated	<u>65,366,187</u>	<u>6,688,389</u>	<u>9,460</u>	<u>72,045,116</u>
Governmental activity capital assets, net	<u>\$ 89,056,388</u>	<u>\$ 6,823,229</u>	<u>\$ 3,321,094</u>	<u>\$ 92,558,523</u>

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

Governmental Activities	Depreciation Expense
General Government	\$ 251,386
Public Safety	331,440
Parks & Public Works	2,180,565
Community Development	111,242
Library	78,408
Sanitation	37,383
Redevelopment	117,727
Total Governmental Activities	<u>\$ 3,108,151</u>

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

	Balance at June 30, 2012	Adjustments and Additions	Retirements	Balance at June 30, 2013
Capital Assets not being depreciated:				
Land	\$ 5,321,307	\$ -	\$ 63,885	\$ 5,257,422
Total capital assets not being depreciated	5,321,307	-	63,885	5,257,422
Capital Assets being depreciated:				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total capital assets being depreciated	4,067,708	-	-	4,067,708
Less accumulated depreciation for:				
Buildings and Improvements	1,830,470	101,693	-	1,932,163
Total accumulated depreciation	1,830,470	101,693	-	1,932,163
Net capital assets being depreciated	2,237,238	(101,693)	-	2,135,545
Successor Agency capital assets, net	\$ 7,558,545	\$ (101,693)	\$ 63,885	\$ 7,392,967

**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, 2013:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 8,600,000	\$ 275,000	\$ 8,325,000	\$ 285,000	\$ 8,040,000
2010 COP	2.5-4.25%	2028	15,675,000	15,145,000	650,000	14,495,000	670,000	13,825,000
Subtotal COP's			26,400,000	23,745,000	925,000	22,820,000	955,000	21,865,000
Premiums			753,095	677,785	37,655	640,130	-	640,130
Total Long-Term Debt			\$ 27,153,095	\$ 24,422,785	\$ 962,655	\$ 23,460,130	\$ 955,000	\$ 22,505,130

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

Future debt service requirements of the 2002 and 2010 Certificates of Participation (collectively the "COPs") as of June 30, 2013, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2014	\$ 955,000	\$ 980,578	\$ 1,935,578
2015	990,000	938,055	1,928,055
2016	1,025,000	897,398	1,922,398
2017	1,065,000	858,303	1,923,303
2018	1,105,000	809,739	1,914,739
2019-2023	6,250,000	3,266,153	9,516,153
2024-2028	7,780,000	1,742,894	9,522,894
2029-2033	3,650,000	275,656	3,925,656
<b>Total COP Debt Service</b>	<b>\$ 22,820,000</b>	<b>\$ 9,768,774</b>	<b>\$ 32,588,774</b>

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled \$2,005,931 as of June 30, 2013. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

**NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT**

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

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of the non-obligated debt outstanding was \$135,000 as of June 30, 2013 and was excluded from the Town's financial statements.

**NOTE 8 - FUND BALANCES**

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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As of June 30, 2013, fund balances were classified as follows:

**Restricted**

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

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

**Assigned**

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

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

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

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

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

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

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

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

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

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

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

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

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN**

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

**Funding Policy** - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2013 was 19.623% of annual covered payroll for non-safety (miscellaneous) and 39.313% for safety employees. The contribution requirements of plan members and the Town are established and may be amended by PERS. All related obligations are paid from the Town's General Fund.

**Annual Pension Cost** - For fiscal year ended June 30, 2013, the Town's \$4,107,452 annual pension cost for PERS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses); (b) projected annual salary increases from 3.2% and 14.20% that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**Three Year Trend Information PERS**

**Safety Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	1,730,796	100%	-
6/30/2012	2,094,561	100%	-
6/30/2013	2,187,866	100%	-

**Miscellaneous Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	1,203,491	100%	-
6/30/2012	1,852,519	100%	-
6/30/2013	1,919,586	100%	-

**Plan Actuarial Value and Funding Progress (Required Supplementary Information)**

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

**Safety Plan:**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	973,814,168	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%

**Miscellaneous Plan:**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	66,123,224	56,676,749	9,446,475	85.7%	9,101,528	103.8%
2010	70,468,550	59,225,131	11,243,419	84.0%	8,888,743	126.5%
2011	75,549,721	61,760,502	13,789,219	81.7%	8,616,783	160.0%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

**Funding Policy** - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the year ended June 30, 2013, the Town contributed \$1,887,047 to the plan, including \$687,047 for current premiums and an additional \$1,200,000 to prefund benefits. All related obligations are paid from the Town's General Fund.

**Annual OPEB Cost and Net OPEB Obligation** - As of June 30, 2013 and for the year then ended, the Town's Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

NOO as of June 30, 2012		\$ 2,881,907
Annual OPEB Cost		
Annual Required Contribution		2,492,000
Interest on NOO		191,000
NOO adjustment		(193,000)
Net annual OPEB cost		2,490,000
Contributions made (includes benefit payments)		(1,887,047)
NOO as of June 30, 2013		\$ 3,484,860

**Trend Information**

		Actual			
Year	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation	
2011	\$ 1,928,000	\$ 1,401,000	73%	\$ 2,551,863	
2012	2,056,000	1,725,956	84%	2,881,907	
2013	2,490,000	1,887,047	76%	3,484,860	

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**Funded Status and Funding Progress**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$ 22,121,000	\$ 3,272,382	\$ 18,848,618	14.8%	\$ 13,477,000	139.9%
2012	23,897,000	2,885,000	21,012,000	12.1%	13,915,000	151.0%
2013	25,787,000	4,157,000	21,630,000	16.1%	14,123,000	153.2%

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

In the June 30, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Ultimate investment return of 7.25% (upward trend 0.25%-0.30% per year to 7.25% in FY 17/18)
2. Projected salary increases of 3.25%.
3. The annual healthcare cost trend ultimate rate is 5%. The select rates were 9%-9.4% depending on plans but were reduced to the ultimate rate in 2021.
4. Total inflation is assumed to increase 3% annually.
5. Amortization method: Level percentage of payroll.
6. Amortization period:
  - a. 30-year closed period for initial unfunded actuarial accrued liability (UAAL) (25 years remaining as of June, 30, 2013)
  - b. 20-year closed period for method, assumption, and plan changes
  - c. 15-year closed period for gains and losses; and
  - d. Maximum 30 year combined period
7. Actuarial method for valuing assets: Investment gains and losses spread over a 5-year rolling period, not less than 80% or more than 120% of market value.

**Plan Actuarial Value and Funding Progress (Required Supplementary Information)**

As of June 30, 2011, the valuation date, the plan was 8.8% funded. The actuarial accrued liability (AAL) for benefits was \$22,121,000 and the actuarial value of plan assets was approximately \$3,272,382, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,848,618. The covered payroll (annual payroll of active employees covered by the plan) was \$13,477,000 and the ratio of UAAL to the covered payroll was 136%.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 11 - RISK MANAGEMENT**

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

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

Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2012, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total Assets	\$ 45,141,862
Total Liabilities	<u>24,677,330</u>
Net Assets	<u><u>\$ 20,464,532</u></u>
Total Operating Revenue	\$ 8,660,668
Total Operating Expense	<u>15,179,160</u>
Net Operating Income	(6,518,492)
General Revenue	<u>449,814</u>
Change in Net Assets	(6,068,678)
Beginning Net Assets	<u>26,533,210</u>
Ending Net Assets	<u><u>\$ 20,464,532</u></u>

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

Condensed full accrual basis audited financial information of LAWCX as of and for the year ended June 30, 2012, is as follows:

Total Assets	\$ 65,962,653
Total Liabilities	39,812,621
Net Assets	<u>\$ 26,150,032</u>
Total Operating Revenue	\$ 7,781,855
Total Operating Expense	10,963,129
Net Operating Income	<u>(3,181,274)</u>
General Revenue	1,389,150
Change in Net Assets	<u>(1,792,124)</u>
Beginning Net Assets	27,942,156
Ending Net Assets	<u>\$ 26,150,032</u>

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

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

The change in Workers' Compensation and Self Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2013:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2011	\$ 514,123	\$ 28,993	\$ 543,116
Claims incurred	1,023,598	320,219	1,343,817
Claims paid	<u>(730,338)</u>	<u>(39,554)</u>	<u>(769,892)</u>
Claims payable balance - June 30, 2012	807,383	309,658	1,117,041
Claims incurred	366,125	460,807	826,932
Claims paid	<u>(378,021)</u>	<u>(416,657)</u>	<u>(794,678)</u>
Claims payable balance - June 30, 2013	<u>\$ 795,487</u>	<u>\$ 353,808</u>	<u>\$ 1,149,295</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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

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

During the fiscal year ended June 30, 2013, transfers of the assets and liabilities from governmental funds of the Town to fiduciary funds were reported in the government funds and government wide financial statements as an extraordinary gain of \$295,101. This was also reported in the private-purpose trust fund as an extraordinary loss.

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

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

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

As of June 30, 2013, the Successor Agency trust fund reported a net deficit of \$11,368,662.

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

**Public Improvement Grants and Cooperative Agreements**

In January of 2011, the Redevelopment Agency entered into a public improvement grant and cooperative agreement with the Town for the purpose of funding the acquisition of public land and designing and constructing various public improvements to be owned by the Town provided that the projects were in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan. The improvement plan, as indentified in the agreement, called for approximately \$24 million to be granted to the Town for the following projects:

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Affordable Housing Cooperative Agreement**

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

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

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

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*Supplementary Information*

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**  
**MAJOR GOVERNMENTAL FUND SCHEDULES**  
**(OTHER THAN THE GENERAL FUND)**

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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.

**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, 2013**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Other taxes	\$ 80,000	\$ 80,000	\$ 302,028	\$ 222,028
Intergovernmental	9,999	773,575	788,095	14,520
Charges for services	730,000	1,510,208	1,414,660	(95,548)
Other	-	-	1,397,871	1,397,871
<b>Total Revenues</b>	<b>819,999</b>	<b>2,363,783</b>	<b>3,902,654</b>	<b>1,538,871</b>
<b>EXPENDITURES</b>				
Payments to Successor Agency	-	-	1,277,063	(1,277,063)
Capital outlay	5,203,274	12,282,901	5,273,966	7,008,935
<b>Total Expenditures</b>	<b>5,203,274</b>	<b>12,282,901</b>	<b>6,551,029</b>	<b>5,731,872</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(4,383,275)</b>	<b>(9,919,118)</b>	<b>(2,648,375)</b>	<b>7,270,743</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	2,604,615	2,246,270	2,218,785	(27,485)
Operating transfers (out)	(112,000)	(112,000)	(139,965)	(27,965)
<b>Total Other Financing Sources (Uses)</b>	<b>2,492,615</b>	<b>2,134,270</b>	<b>2,078,820</b>	<b>(55,450)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (1,890,660)</b>	<b>\$ (7,784,848)</b>	<b>(569,555)</b>	<b>\$ 7,215,293</b>
<b>BEGINNING FUND BALANCE</b>			<b>6,666,737</b>	
<b>ENDING FUND BALANCE</b>			<b>\$ 6,097,182</b>	

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**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NONMAJOR GOVERNMENTAL FUNDS**

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*Capital Projects Funds:*

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

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

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

*Special Revenue Funds:*

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

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

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

**TOWN OF LOS GATOS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**JUNE 30, 2013**

	CAPITAL PROJECTS FUNDS				SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
<b>ASSETS</b>									
Cash & Investments	\$ 1,110,841	\$ 2,519,548	\$ 169,347	\$ 3,799,736	\$ 46,963	\$ -	\$ 146,639	\$ 193,602	\$ 3,993,338
Receivables:									
Accounts	-	-	-	-	-	143,768	-	143,768	143,768
Intergovernmental Receivable	-	-	-	-	145,707	-	4,233	149,940	149,940
<b>Total Assets</b>	<b>\$ 1,110,841</b>	<b>\$ 2,519,548</b>	<b>\$ 169,347</b>	<b>\$ 3,799,736</b>	<b>\$ 192,670</b>	<b>\$ 143,768</b>	<b>\$ 150,872</b>	<b>\$ 487,310</b>	<b>\$ 4,287,046</b>
<b>LIABILITIES</b>									
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 3,409	\$ 202	\$ 1,025	\$ 4,636	\$ 4,636
Accrued payroll and benefits	-	-	-	-	-	1,753	-	1,753	1,753
Due to other funds	-	-	-	-	-	21,708	-	21,708	21,708
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,409</b>	<b>23,663</b>	<b>1,025</b>	<b>28,097</b>	<b>28,097</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unearned Revenue	-	-	-	-	152,158	-	-	152,158	152,158
<b>FUND BALANCE</b>									
Restricted for:									
Capital Projects	1,110,841	2,519,548	169,347	3,799,736	-	-	-	-	3,799,736
Committed to:									
Repairs and Maintenance	-	-	-	-	-	-	149,847	149,847	149,847
Unassigned	-	-	-	-	37,103	120,105	-	157,208	157,208
<b>Total Fund Balances</b>	<b>1,110,841</b>	<b>2,519,548</b>	<b>169,347</b>	<b>3,799,736</b>	<b>37,103</b>	<b>120,105</b>	<b>149,847</b>	<b>307,055</b>	<b>4,106,791</b>
<b>Total Liabilities, Fund Balances and Deferred Inflows of Resources</b>	<b>\$ 1,110,841</b>	<b>\$ 2,519,548</b>	<b>\$ 169,347</b>	<b>\$ 3,799,736</b>	<b>\$ 192,670</b>	<b>\$ 143,768</b>	<b>\$ 150,872</b>	<b>\$ 487,310</b>	<b>\$ 4,287,046</b>

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

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	229,642	53,845	-	283,487
Intergovernmental	-	-	733,169	733,169
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Interest	6,410	15,381	(1,122)	20,669
Other	-	-	-	-
Total Revenues	<u>236,052</u>	<u>69,226</u>	<u>732,047</u>	<u>1,037,325</u>
<b>EXPENDITURES</b>				
Current:				
Parks and Public Works	-	-	-	-
Community Development	-	-	-	-
Sanitation and Other	-	-	-	-
Redevelopment	-	-	-	-
Capital Outlay	241,845	-	650,000	891,845
Total Expenditures	<u>241,845</u>	<u>-</u>	<u>650,000</u>	<u>891,845</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(5,793)	69,226	82,047	145,480
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
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	(5,793)	69,226	(23,953)	39,480
Fund Balances - Beginning of year	<u>1,116,634</u>	<u>2,450,322</u>	<u>193,300</u>	<u>3,760,256</u>
Fund Balances - End of year	<u>\$ 1,110,841</u>	<u>\$ 2,519,548</u>	<u>\$ 169,347</u>	<u>\$ 3,799,736</u>

(Continued)

**TOWN OF LOS GATOS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	SPECIAL REVENUE FUNDS				Total
	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
<b>REVENUES</b>					
Property Taxes	\$ -	\$ -	\$ 41,238	\$ 41,238	\$ 41,238
Other Taxes	-	-	-	-	283,487
Intergovernmental	169,270	-	-	169,270	902,439
Charges for Services	-	403,294	-	403,294	403,294
Fines and Forfeitures	-	-	15	15	15
Interest	8,249	-	772	9,021	29,690
Other	11,513	-	-	11,513	11,513
<b>Total Revenues</b>	<b>189,032</b>	<b>403,294</b>	<b>42,025</b>	<b>634,351</b>	<b>1,671,676</b>
<b>EXPENDITURES</b>					
Current:					
Parks and Public Works	-	-	17,175	17,175	17,175
Community Development	13,230	-	-	13,230	13,230
Sanitation and Other	-	359,725	-	359,725	359,725
Redevelopment	-	-	-	-	-
Capital Outlay	-	-	-	-	891,845
<b>Total Expenditures</b>	<b>13,230</b>	<b>359,725</b>	<b>17,175</b>	<b>390,130</b>	<b>1,281,975</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>175,802</b>	<b>43,569</b>	<b>24,850</b>	<b>244,221</b>	<b>389,701</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers (out)	(169,270)	-	(4,920)	(174,190)	(280,190)
<b>Total Other Financing Sources (Uses)</b>	<b>(169,270)</b>	<b>-</b>	<b>(4,920)</b>	<b>(174,190)</b>	<b>(280,190)</b>
Changes in Fund Balances	6,532	43,569	19,930	70,031	109,511
Fund Balances - Beginning of year	30,571	76,536	129,917	237,024	3,997,280
Fund Balances - End of year	<b>\$ 37,103</b>	<b>\$ 120,105</b>	<b>\$ 149,847</b>	<b>\$ 307,055</b>	<b>\$ 4,106,791</b>

(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, 2013**

	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	-	-	-	-	-	-
Intergovernmental	274,079	169,270	(104,809)	-	-	-
Charges for services	-	-	-	502,000	403,294	(98,706)
Fines and forfeitures	-	-	-	-	-	-
Interest	5,029	8,249	3,220	-	-	-
Other	-	11,513	11,513	-	-	-
Total Revenues	279,108	189,032	(90,076)	502,000	403,294	(98,706)
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	-	-	-
Community services	46,370	13,230	33,140	-	-	-
Sanitation and other	-	-	-	338,798	359,725	(20,927)
Capital outlay	-	-	-	-	-	-
Total Expenditures	46,370	13,230	33,140	338,798	359,725	(20,927)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	232,738	175,802	(56,936)	163,202	43,569	(119,633)
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(169,270)	(169,270)	-	-	-	-
Total Other Financing Sources (Uses)	(169,270)	(169,270)	-	-	-	-
<b>CHANGE IN FUND BALANCE</b>	<u>\$ 63,468</u>	<u>6,532</u>	<u>\$ (56,936)</u>	<u>\$ 163,202</u>	<u>43,569</u>	<u>\$ (119,633)</u>
<b>BEGINNING FUND BALANCE</b>		<u>30,571</u>			<u>76,536</u>	
<b>ENDING FUND BALANCE</b>		<u>\$ 37,103</u>			<u>\$ 120,105</u>	

(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, 2013**

	LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ 37,760	\$ 41,238	\$ 3,478	\$ -	\$ -	\$ -
Other taxes	-	-	-	92,000	229,642	137,642
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	15	15	-	-	-
Interest	1,588	772	(816)	10,540	6,410	(4,130)
Other	-	-	-	-	-	-
Total Revenues	39,348	42,025	2,677	102,540	236,052	133,512
<b>EXPENDITURES</b>						
Parks and public works	29,023	17,175	11,848	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	284,560	241,845	42,715
Total Expenditures	29,023	17,175	11,848	284,560	241,845	42,715
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	10,325	24,850	14,525	(182,020)	(5,793)	176,227
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	-	-	-
<b>CHANGE IN FUND BALANCE</b>	<u>\$ 5,405</u>	<u>19,930</u>	<u>\$ 14,525</u>	<u>\$ (182,020)</u>	<u>(5,793)</u>	<u>\$ 176,227</u>
<b>BEGINNING FUND BALANCE</b>		<u>129,917</u>			<u>1,116,634</u>	
<b>ENDING FUND BALANCE</b>		<u>\$ 149,847</u>			<u>\$ 1,110,841</u>	

(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, 2013**

	CONSTRUCTION TAX			GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,760	\$ 41,238	\$ 3,478
Other taxes	15,000	53,845	38,845	-	-	-	107,000	283,487	176,487
Intergovernmental	-	-	-	832,290	733,169	(99,121)	1,106,369	902,439	(203,930)
Charges for services	-	-	-	-	-	-	502,000	403,294	(98,706)
Fines and forfeitures	-	-	-	-	-	-	-	15	15
Interest	36,250	15,381	(20,869)	2,270	(1,122)	(3,392)	55,677	29,690	(25,987)
Other	-	-	-	-	-	-	-	11,513	11,513
<b>Total Revenues</b>	<b>51,250</b>	<b>69,226</b>	<b>17,976</b>	<b>834,560</b>	<b>732,047</b>	<b>(102,513)</b>	<b>1,808,806</b>	<b>1,671,676</b>	<b>(137,130)</b>
<b>EXPENDITURES</b>									
Parks and public works	-	-	-	-	-	-	29,023	17,175	11,848
Community services	-	-	-	-	-	-	46,370	13,230	33,140
Sanitation and other	-	-	-	-	-	-	338,798	359,725	(20,927)
Capital outlay	-	-	-	650,000	650,000	-	934,560	891,845	42,715
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650,000</b>	<b>650,000</b>	<b>-</b>	<b>1,348,751</b>	<b>1,281,975</b>	<b>66,776</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>51,250</b>	<b>69,226</b>	<b>17,976</b>	<b>184,560</b>	<b>82,047</b>	<b>(102,513)</b>	<b>460,055</b>	<b>389,701</b>	<b>(70,354)</b>
<b>OTHER FINANCING SOURCES (USES)</b>									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(106,000)	(106,000)	-	(280,190)	(280,190)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(106,000)</b>	<b>(106,000)</b>	<b>-</b>	<b>(280,190)</b>	<b>(280,190)</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ 51,250</b>	<b>69,226</b>	<b>\$ 17,976</b>	<b>\$ 78,560</b>	<b>(23,953)</b>	<b>\$ (102,513)</b>	<b>\$ 179,865</b>	<b>109,511</b>	<b>\$ (70,354)</b>
<b>BEGINNING FUND BALANCE</b>		<u>2,450,322</u>			<u>193,300</u>			<u>3,997,280</u>	
<b>ENDING FUND BALANCE</b>		<u>\$ 2,519,548</u>			<u>\$ 169,347</u>			<u>\$ 4,106,791</u>	

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**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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 photocopy equipment, postage and bulk meter expenses.

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

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

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

**TOWN OF LOS GATOS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2013**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
<b>ASSETS</b>								
Cash & Investments	\$ 3,260,721	\$ 3,031,683	\$ 1,708,456	\$ 157,044	\$ 2,636,737	\$ 598,034	\$ 1,339,377	\$ 12,732,052
Restricted Cash & Investments	-	18,653	-	-	-	-	-	18,653
Receivables:								
Accounts	-	87	-	-	1,027	-	1,094	2,208
Materials, Supplies and Deposits	-	-	-	4,573	-	19,823	-	24,396
Equipment (Net)	-	-	-	-	-	5,952	5,340	11,292
<b>Total Assets</b>	<b>\$ 3,260,721</b>	<b>\$ 3,050,423</b>	<b>\$ 1,708,456</b>	<b>\$ 161,617</b>	<b>\$ 2,637,764</b>	<b>\$ 623,809</b>	<b>\$ 1,345,811</b>	<b>\$ 12,788,601</b>
<b>LIABILITIES</b>								
Accounts Payable	-	5,964	-	2,404	134,166	18,282	86,782	247,598
Accrued Payroll and Benefits	190	2,057	2,614	-	7,901	3,719	3,320	19,801
Due to Other Governments	-	-	-	-	-	14	-	14
Claims Payable	-	795,487	353,808	-	-	-	-	1,149,295
<b>Total Liabilities</b>	<b>\$ 190</b>	<b>\$ 803,508</b>	<b>\$ 356,422</b>	<b>\$ 2,404</b>	<b>\$ 142,067</b>	<b>\$ 22,015</b>	<b>\$ 90,102</b>	<b>\$ 1,416,708</b>
<b>NET POSITION</b>								
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,952	\$ 5,340	\$ 11,292
Restricted for:								
workers compensation claims	-	18,653	-	-	-	-	-	18,653
Unrestricted	3,260,531	2,228,262	1,352,034	159,213	2,495,697	595,842	1,250,369	11,341,948
<b>Total Net Position</b>	<b>\$ 3,260,531</b>	<b>\$ 2,246,915</b>	<b>\$ 1,352,034</b>	<b>\$ 159,213</b>	<b>\$ 2,495,697</b>	<b>\$ 601,794</b>	<b>\$ 1,255,709</b>	<b>\$ 11,371,893</b>

**TOWN OF LOS GATOS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
<b>OPERATING REVENUES</b>								
Charges for services	\$ 439,532	\$ 638,594	\$ 486,986	\$ 88,323	\$ 1,039,344	\$ 537,448	\$ 991,682	\$ 4,221,909
Interest	-	10	-	-	-	-	-	10
Use of money and property	-	-	-	-	-	-	177,785	177,785
Other	89,243	53,114	-	294	196	-	70,871	213,718
<b>Total Operating Revenues</b>	<b>528,775</b>	<b>691,718</b>	<b>486,986</b>	<b>88,617</b>	<b>1,039,540</b>	<b>537,448</b>	<b>1,240,338</b>	<b>4,613,422</b>
<b>OPERATING EXPENSES</b>								
Salaries and benefits	9,411	96,223	122,152	-	423,825	189,157	206,500	1,047,268
Insurance expenses	-	135,000	371,922	-	-	-	-	506,922
Depreciation expenses	-	-	-	-	-	6,772	2,619	9,391
Services and supplies	20,023	514,218	236,018	135,974	593,363	261,434	790,375	2,551,405
<b>Total Operating Expenses</b>	<b>29,434</b>	<b>745,441</b>	<b>730,092</b>	<b>135,974</b>	<b>1,017,188</b>	<b>457,363</b>	<b>999,494</b>	<b>4,114,986</b>
Operating Income (loss)	499,341	(53,723)	(243,106)	(47,357)	22,352	80,085	240,844	498,436
Transfers (in)	-	-	-	-	-	-	-	-
Transfers (out)	(372,210)	-	-	-	-	-	(5,820)	(378,030)
Net Transfers	(372,210)	-	-	-	-	-	(5,820)	(378,030)
Change in Net Position	127,131	(53,723)	(243,106)	(47,357)	22,352	80,085	235,024	120,406
<b>BEGINNING NET POSITION</b>	<b>3,133,400</b>	<b>2,300,638</b>	<b>1,595,140</b>	<b>206,570</b>	<b>2,473,345</b>	<b>521,709</b>	<b>1,020,685</b>	<b>11,251,487</b>
<b>ENDING NET POSITION</b>	<b>\$ 3,260,531</b>	<b>\$ 2,246,915</b>	<b>\$ 1,352,034</b>	<b>\$ 159,213</b>	<b>\$ 2,495,697</b>	<b>\$ 601,794</b>	<b>\$ 1,255,709</b>	<b>\$ 11,371,893</b>

**TOWN OF LOS GATOS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Receipts from customers	\$ 528,775	\$ 691,631	\$ 486,986	\$ 88,617	\$ 1,039,191	\$ 538,079	\$ 1,250,360	\$ 4,623,639
Payments to suppliers	(26,874)	-	-	(132,410)	(509,902)	(237,891)	(782,969)	(1,690,046)
Payments to employees	(9,387)	(95,885)	(121,690)	-	(423,039)	(188,568)	(207,957)	(1,046,526)
Claims paid	-	(655,150)	(566,995)	-	-	-	-	(1,222,145)
Net Cash Provided (Used) by Operating Activities	492,514	(59,404)	(201,699)	(43,793)	106,250	111,620	259,434	664,922
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(372,210)	-	-	-	-	-	(5,820)	(378,030)
Net Cash Provided (Used) by Noncapital Financing Activities	(372,210)	-	-	-	-	-	(5,820)	(378,030)
Net Increase(Decrease) in Cash and Investments	120,304	(59,404)	(201,699)	(43,793)	106,250	111,620	253,614	286,892
Cash and investments - beginning of year	3,140,417	3,109,740	1,910,155	200,837	2,530,487	486,414	1,085,763	12,463,813
Cash and investments - end of year	\$ 3,260,721	\$ 3,050,336	\$ 1,708,456	\$ 157,044	\$ 2,636,737	\$ 598,034	\$ 1,339,377	\$ 12,750,705
Reconciliation of Operating Income to Cash								
Flows from Operating Activities:								
Operating Income	\$ 499,341	\$ (53,723)	\$ (243,106)	\$ (47,357)	\$ 22,352	\$ 80,085	\$ 240,844	\$ 498,436
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	6,772	2,619	9,391
Change in assets and liabilities:								
Receivables, net	-	(87)	-	-	(349)	631	10,022	10,217
Other assets	-	-	-	2,288	-	13,947	-	16,235
Accounts payable	(6,851)	5,964	(3,205)	1,276	83,468	9,601	7,406	97,659
Accrued payroll and benefits	24	(11,558)	44,612	-	779	584	(1,457)	32,984
Cash Flows From Operating Activities	\$ 492,514	\$ (59,404)	\$ (201,699)	\$ (43,793)	\$ 106,250	\$ 111,620	\$ 259,434	\$ 664,922

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**PRIVATE PURPOSE TRUST FUNDS**

---

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

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

**TOWN OF LOS GATOS**  
**PRIVATE PURPOSE TRUST FUNDS**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2013**

	Library	RDA Successor Agency	Total
<b>ASSETS</b>			
Cash and investments (Note 2)	\$ 787,849	\$ 1,852,713	\$ 2,640,562
Restricted cash and investments (Note 2)	-	2,005,931	2,005,931
Accounts receivable	-	416	416
Loans receivable (Note 3)	-	505,441	505,441
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	2,135,545	2,135,545
 Total Assets	 787,849	 11,757,468	 12,545,317
<b>LIABILITIES</b>			
Accounts payable	30,370	6,730	37,100
Due to other governments	217	-	217
Interest payable	-	416,532	416,532
Long-term debt (Note 6):			
Due within one year	-	955,000	955,000
Due in more than one year	-	22,505,130	22,505,130
 Total Liabilities	 30,587	 23,883,392	 23,913,979
<b>NET POSITION</b>			
Held in trust	757,262	(12,125,924)	(11,368,662)
 Total Net Position	 \$ 757,262	 \$ (12,125,924)	 \$ (11,368,662)

**TOWN OF LOS GATOS  
PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Library	RDA Successor Agency	Total
<b>ADDITIONS</b>			
Investment earnings	\$ 5,514	\$ 50,402	\$ 55,916
Gifts, bequests and endowments	28,150	-	28,150
Repayment of Town obligations	-	1,277,063	1,277,063
Other	-	4,171,849	4,171,849
<b>Total Additions</b>	<b>33,664</b>	<b>5,499,314</b>	<b>5,532,978</b>
<b>DEDUCTIONS</b>			
Program expenses	-	340,095	340,095
Payments to other governments	-	295,913	295,913
Interest and fiscal agency expenses of RDA	-	3,123,866	3,123,866
Library services	135,631	-	135,631
Depreciation expense	-	101,693	101,693
<b>Total Deductions</b>	<b>135,631</b>	<b>3,861,567</b>	<b>3,997,198</b>
Extraordinary Gain (Loss) - RDA Dissolution	-	(358,986)	(358,986)
<b>CHANGE IN NET POSITION</b>	<b>(101,967)</b>	<b>1,278,761</b>	<b>1,176,794</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>859,229</b>	<b>(13,404,685)</b>	<b>(12,545,456)</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 757,262</b>	<b>\$ (12,125,924)</b>	<b>\$ (11,368,662)</b>

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**AGENCY FUND**  
**PARKNG IMPROVEMENT DISTRICT #88**

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

**TOWN OF LOS GATOS  
 AGENCY FUND  
 PARKING IMPROVEMENT DISTRICT #88  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
<b>ASSETS</b>				
Cash and investments (Note 3)	\$ 26,730	\$ 140,822	\$ 143,655	\$ 23,897
Restricted cash and investments (Note 3)	284,992	1,455	-	286,447
Intergovernmental receivable	92,346	6,158	92,346	6,158
Total Assets	<u>\$ 404,068</u>	<u>\$ 148,435</u>	<u>\$ 236,001</u>	<u>\$ 316,502</u>
 <b>LIABILITIES</b>				
Due to other governments	<u>\$ 404,068</u>	<u>\$ 148,435</u>	<u>\$ 236,001</u>	<u>\$ 316,502</u>
Total Liabilities	<u>\$ 404,068</u>	<u>\$ 148,435</u>	<u>\$ 236,001</u>	<u>\$ 316,502</u>

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*Statistical Section*

## **STATISTICAL (UNAUDITED)**

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

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

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

### **Demographic and Economic Information**

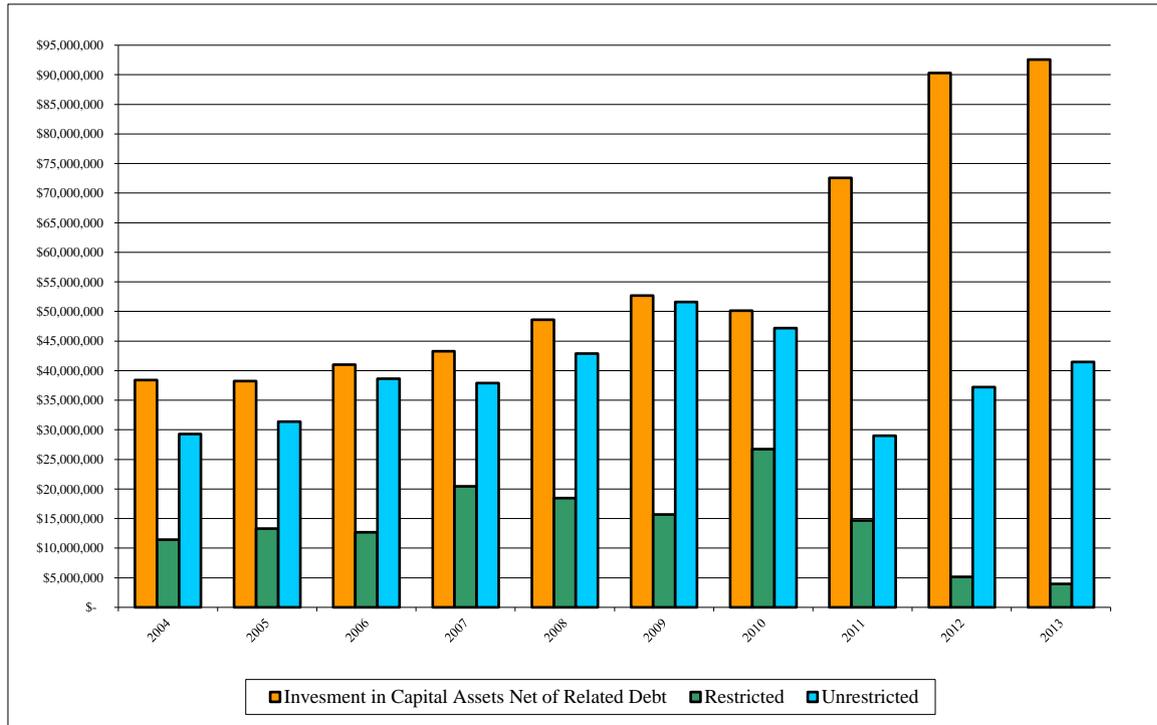
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

### **Operating Information**

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

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

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2004	\$ 38,417,211	\$ 11,463,187	\$ 29,308,135	\$ 79,188,533
2005	38,234,229	13,295,871	31,410,468	82,940,568
2006	41,019,121	12,665,493	38,609,085	92,293,699
2007	43,281,315	20,423,828	37,893,056	101,598,199
2008	48,581,378	18,459,776	42,884,826	109,925,980
2009	52,665,506	15,663,436	51,619,635	119,948,577
2010	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483

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

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

<b>Expenses</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
<b>Governmental Activities:</b>										
General government	\$ 4,246,133	\$ 4,341,526	\$ 4,383,584	\$ 4,570,391	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768
Police department	9,980,927	10,524,840	11,133,362	11,556,350	12,313,637	13,467,503	13,266,849	13,495,885	14,124,798	13,731,754
Parks and public works	6,179,328	5,953,319	6,523,888	7,222,052	6,958,449	8,671,678	7,458,085	7,155,905	7,827,332	7,829,315
Community development	2,229,686	2,494,689	2,887,818	2,735,223	3,064,865	3,389,151	3,522,477	3,099,269	3,434,551	4,094,188
Community services	1,046,351	920,562	948,650	2,388,250	1,060,922	1,162,284	1,270,240	666,015	-	-
Library services	1,807,662	1,786,696	1,880,465	1,892,448	1,956,767	2,067,476	2,038,009	1,892,805	1,938,577	2,128,823
Sanitation	832,538	834,525	574,344	414,610	502,196	407,048	655,713	342,893	158,205	393,205
Redevelopment	1,828,924	2,133,008	2,093,546	2,434,935	3,360,585	2,939,550	6,992,935	16,794,022	919,821	1,277,063
Interest and fees	662,867	696,266	708,585	704,794	670,415	631,159	612,700	1,278,381	1,123,842	-
<b>Total Governmental Activities</b>	<b>\$ 28,814,415</b>	<b>\$ 29,685,430</b>	<b>\$ 31,134,241</b>	<b>\$ 33,919,053</b>	<b>\$ 35,121,567</b>	<b>\$ 38,059,316</b>	<b>\$ 40,464,809</b>	<b>\$ 49,905,328</b>	<b>\$ 35,672,269</b>	<b>\$ 36,019,116</b>
<b>Program Revenues</b>										
<b>Charges for Services:</b>										
General government	\$ 1,959,401	\$ 1,640,632	\$ 1,981,557	\$ 2,127,670	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593
Police department	1,446,067	1,386,479	1,343,028	1,250,636	895,569	1,358,361	2,110,357	2,153,843	2,324,397	2,450,630
Parks and public works	472,366	757,790	591,079	676,095	576,107	637,933	779,300	810,022	1,215,382	3,032,435
Community development	2,025,305	2,569,923	3,070,115	2,997,419	2,954,123	2,700,614	3,404,087	3,097,192	3,448,433	4,649,444
Community services	347,970	182,075	-	-	-	147,895	134,366	98,803	-	-
Library services	72,013	61,671	62,444	61,091	60,123	56,932	57,633	39,491	37,662	50,696
Sanitation	903,097	889,948	690,314	437,794	166,660	135,000	135,000	135,000	135,000	403,294
<b>Operating Grants and Contributions:</b>										
General government	-	-	-	-	54,242	8,834	10,237	15,638	6,453	8,406
Police department	546,508	566,180	745,797	645,034	744,347	538,629	81,997	27,748	29,980	91,360
Parks and public works	706,621	556,121	549,873	545,432	565,857	633,923	594,775	809,272	993,827	835,724
Community services	124,920	262,554	180,897	68,912	146,236	190,447	124,287	182,683	-	-
Library services	12,981	14,987	11,379	16,735	11,409	10,462	13,996	10,662	109	40
Sanitation	8,155	8,023	7,857	-	41,044	39,891	25,103	9,002	-	-
<b>Capital Grants and Contributions:</b>										
General government	-	-	-	-	-	-	-	-	-	169,270
Parks and public works	1,166,929	867,951	931,616	1,381,631	2,020,121	1,330,638	3,074,453	2,375,759	641,811	2,757,660
<b>Total Program Revenues</b>	<b>\$ 9,792,333</b>	<b>\$ 9,764,334</b>	<b>\$ 10,165,957</b>	<b>\$ 10,208,449</b>	<b>\$ 9,385,751</b>	<b>\$ 8,944,968</b>	<b>\$ 11,883,363</b>	<b>\$ 10,922,046</b>	<b>\$ 9,964,478</b>	<b>\$ 15,865,552</b>
<b>General Revenues</b>										
Property taxes	\$ 9,645,339	\$ 11,931,215	\$ 13,810,457	\$ 16,082,348	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866	\$ 10,729,602
Sales taxes	6,914,526	7,904,130	8,655,566	9,253,891	9,345,432	8,487,000	8,317,217	9,971,409	9,889,100	8,757,428
Other taxes	1,823,019	1,864,997	2,247,997	2,327,516	2,904,908	2,664,698	2,623,622	2,906,264	3,698,753	3,390,602
Motor vehicle in lieu	1,298,455	314,041	666,494	194,104	137,330	101,265	92,595	139,814	15,238	15,790
Investment earnings	(92,621)	1,286,433	1,922,819	3,607,966	4,190,951	2,949,119	1,155,929	760,905	331,420	(133,375)
Sale of property	-	(6,378)	-	-	-	6,525,000	-	(870,127)	-	54,425
Miscellaneous	25,415	378,693	2,850,836	334,818	9,842	66,802	52,459	41,943	2,275,160	1,154,647
Extraordinary gain (loss) dissolution of RDA	-	-	-	-	-	-	-	-	11,864,453	1,480,031
<b>Total General Revenues</b>	<b>\$ 19,614,133</b>	<b>\$ 23,673,131</b>	<b>\$ 30,150,578</b>	<b>\$ 31,800,643</b>	<b>\$ 33,899,515</b>	<b>\$ 39,136,947</b>	<b>\$ 31,097,903</b>	<b>\$ 31,176,209</b>	<b>\$ 42,162,990</b>	<b>\$ 25,449,150</b>
<b>Change in Net Position</b>	<b>\$ 592,051</b>	<b>\$ 3,752,035</b>	<b>\$ 9,182,294</b>	<b>\$ 8,090,039</b>	<b>\$ 8,163,698</b>	<b>\$ 10,022,597</b>	<b>\$ 2,516,457</b>	<b>\$ (7,807,073)</b>	<b>\$ 16,455,199</b>	<b>\$ 5,295,586</b>

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

Schedule 3

	Fiscal Year									
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
General Fund										
Reserved	\$ 1,852,516	\$ 2,097,545	\$ 2,128,873	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -
Unreserved	10,544,144	12,144,819	18,000,209	16,406,211	17,236,569	16,861,752	18,594,984	-	-	-
Nonspendable	-	-	-	-	-	-	-	1,500,000	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	21,806,781	21,992,886	20,758,156
Unassigned	-	-	-	-	-	-	-	2,433,556	4,019,409	7,502,446
Total General Fund	<u>\$ 12,396,660</u>	<u>\$ 14,242,364</u>	<u>\$ 20,129,082</u>	<u>\$ 21,138,605</u>	<u>\$ 19,284,830</u>	<u>\$ 25,027,359</u>	<u>\$ 23,086,573</u>	<u>\$ 25,740,337</u>	<u>\$ 26,012,295</u>	<u>\$ 28,260,602</u>
All Governmental Funds										
Reserved	\$ 11,189,030	\$ 12,844,667	\$ 12,088,367	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	845,014	962,032	1,123,335	836,191	1,030,161	522,105	225,509	-	-	-
Capital project funds	4,078,709	3,853,747	3,842,580	8,169,857	11,719,905	11,203,521	24,454,347	-	-	-
Debt service funds	3,704,844	4,032,770	4,960,030	3,849,382	5,747,185	7,526,557	6,953,732	-	-	-
Nonspendable	-	-	-	-	-	-	-	1,500,000	-	-
Restricted	-	-	-	-	-	-	-	14,764,334	5,167,236	3,949,583
Assigned	-	-	-	-	-	-	-	26,593,328	27,382,560	26,855,338
Unassigned	-	-	-	-	-	-	-	2,409,667	4,126,516	7,659,654
Total all Governmental Funds	<u>\$ 19,817,597</u>	<u>\$ 21,693,216</u>	<u>\$ 22,014,312</u>	<u>\$ 28,675,775</u>	<u>\$ 33,414,880</u>	<u>\$ 34,517,310</u>	<u>\$ 42,158,972</u>	<u>\$ 45,267,329</u>	<u>\$ 36,676,312</u>	<u>\$ 38,464,575</u>

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

Schedule 4

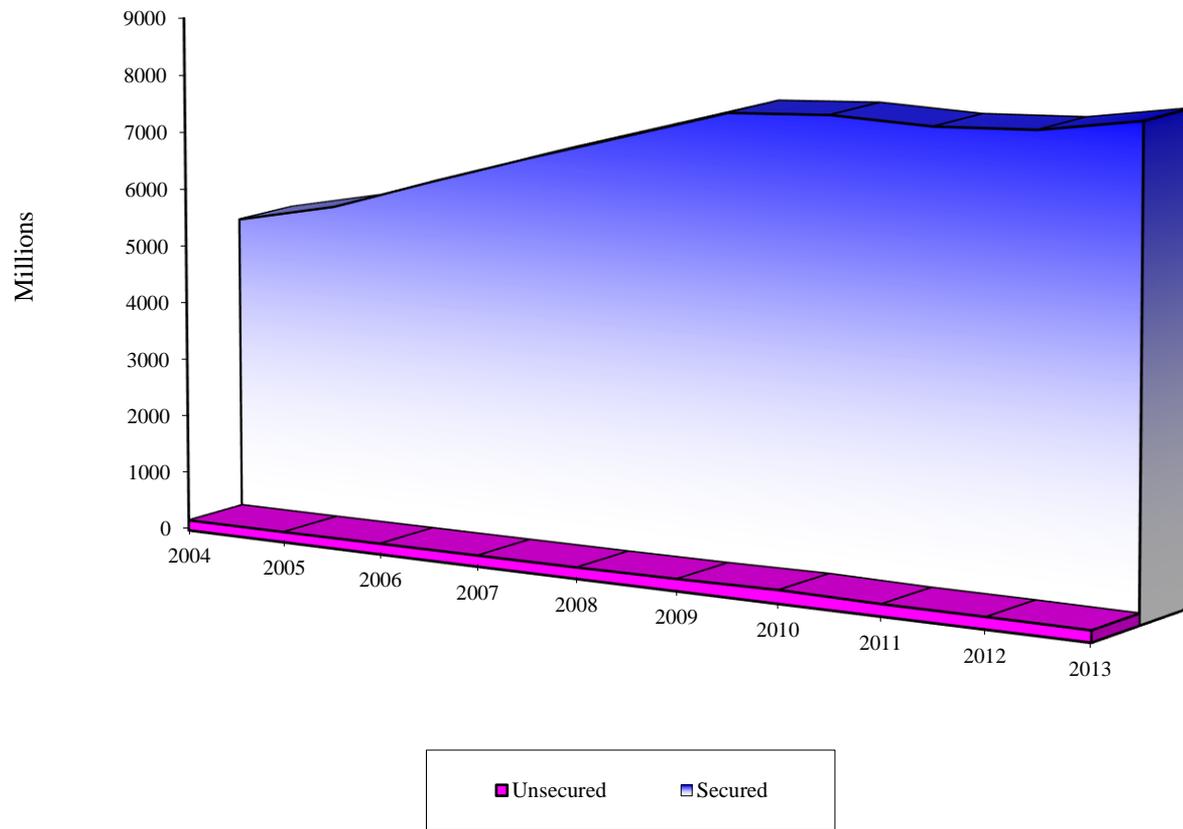
	Fiscal Year									
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
<b>Revenues:</b>										
Taxes	\$ 18,541,280	\$ 22,099,118	\$ 25,112,221	\$ 27,888,072	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799
Intergovernmental	4,719,901	4,242,451	3,993,032	4,085,983	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191
Charges for Service	3,236,450	3,062,960	3,529,178	4,269,571	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234
Licenses & Permits	2,031,387	2,417,204	2,637,977	2,705,028	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871
Investment income	465,432	1,828,216	4,975,513	4,179,736	4,190,955	2,949,120	1,174,203	691,022	291,484	(133,380)
Fines and Forfeitures	751,532	580,937	1,005,773	561,665	369,292	618,771	662,699	737,903	809,790	688,125
Use of Property						60,749	51,948	38,502	38,974	38,910
Other	267,052	1,597	232,694	110,486	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584
<b>Total revenues</b>	<b>30,013,034</b>	<b>34,232,483</b>	<b>41,486,388</b>	<b>43,800,541</b>	<b>44,976,665</b>	<b>43,100,649</b>	<b>45,439,565</b>	<b>46,245,148</b>	<b>44,692,043</b>	<b>42,928,334</b>
<b>Expenditures:</b>										
<b>Current</b>										
Public safety	9,986,069	10,506,167	11,706,091	11,576,850	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032
Public Works	4,625,525	4,399,171	4,742,401	4,956,451	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197
Community Development	2,249,641	2,527,730	2,936,730	2,776,231	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832
Community Services	1,265,296	933,759	950,333	2,395,429	1,056,835	1,149,290	1,261,981	663,645	-	-
Library Services	1,798,331	1,770,991	1,876,022	1,904,900	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479	2,055,069
Sanitation & Other	846,809	848,547	551,164	387,674	470,660	375,483	642,512	314,899	116,607	359,725
General Government	4,234,148	4,372,991	4,358,853	4,586,513	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444
Redevelopment	1,773,889	2,084,767	2,573,514	2,966,132	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063
Capital outlay	6,911,405	2,142,212	4,682,848	4,689,187	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653
<b>Debt service</b>										
Principal repayment	370,000	385,000	400,000	414,167	429,167	445,000	465,000	485,000	934,167	-
Interest and fiscal charges	668,721	698,906	714,079	711,346	676,913	638,221	620,356	1,019,881	1,143,185	-
<b>Total expenditures</b>	<b>34,729,834</b>	<b>30,670,241</b>	<b>35,492,035</b>	<b>37,364,880</b>	<b>42,195,302</b>	<b>43,419,514</b>	<b>56,733,966</b>	<b>66,606,303</b>	<b>48,317,986</b>	<b>41,814,015</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(4,716,800)</b>	<b>3,562,242</b>	<b>5,994,353</b>	<b>6,435,661</b>	<b>2,781,363</b>	<b>(318,865)</b>	<b>(11,294,401)</b>	<b>(20,361,155)</b>	<b>(3,625,943)</b>	<b>1,114,319</b>
<b>Other financing sources(uses):</b>										
Debt Issuance	-	-	-	-	-	-	16,428,095	-	-	-
Transfers in	2,352,051	2,130,315	2,854,245	10,611,169	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881
Transfers out	(1,702,052)	(2,130,315)	(2,640,785)	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)
Proceeds from issuance of debt	-	-	-	-	-	-	-	-	-	-
<b>Total other financing sources(uses)</b>	<b>649,999</b>	<b>-</b>	<b>213,460</b>	<b>1,235,322</b>	<b>103,970</b>	<b>638,823</b>	<b>16,995,276</b>	<b>382,939</b>	<b>73,546</b>	<b>378,031</b>
<b>Special item:</b>										
Sale of property	-	-	-	-	-	6,525,000	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution									(5,038,620)	295,913
<b>Net change in fund balances</b>	<b>\$ (4,066,801)</b>	<b>\$ 3,562,242</b>	<b>\$ 6,207,813</b>	<b>\$ 7,670,983</b>	<b>\$ 2,885,333</b>	<b>\$ 6,844,958</b>	<b>\$ 5,700,875</b>	<b>\$ (19,978,216)</b>	<b>\$ (8,591,017)</b>	<b>\$ 1,788,263</b>
<b>Debt service as a percentage of non capital expenditures</b>	<b>3.73%</b>	<b>3.80%</b>	<b>3.62%</b>	<b>3.44%</b>	<b>3.30%</b>	<b>3.04%</b>	<b>2.67%</b>	<b>2.96%</b>	<b>5.56%</b>	<b>0.00%</b>

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

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

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

Schedule 5

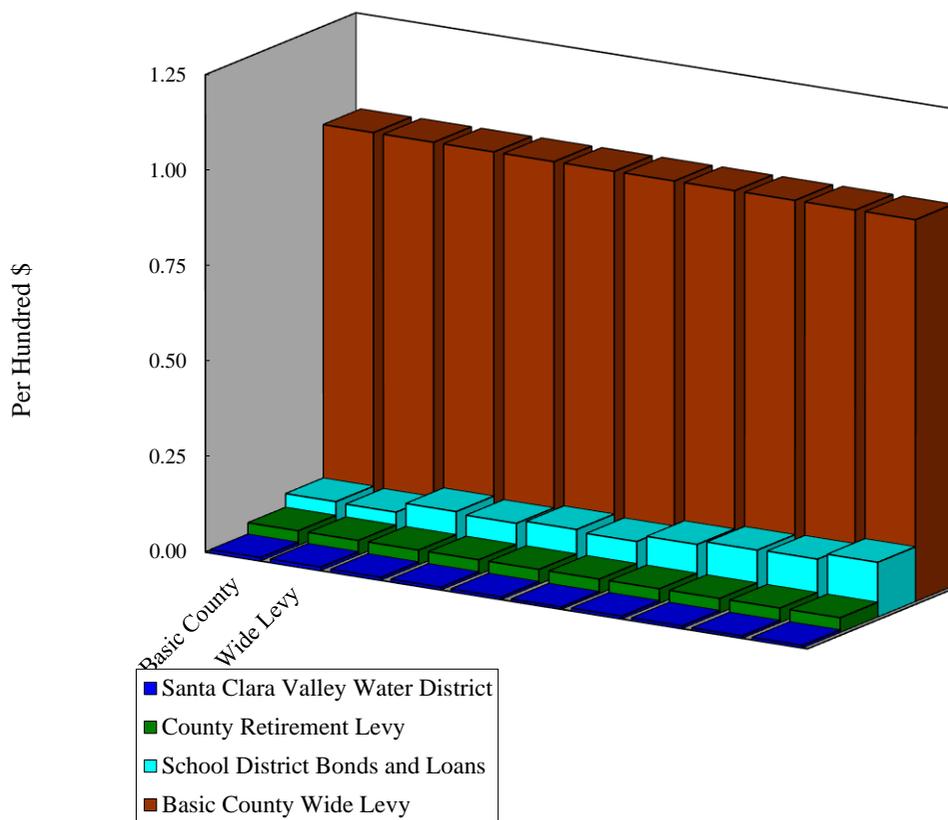


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2004	\$ 175,689,995	-12.83%	\$5,258,601,739	7.02%	\$5,434,291,734	\$ 21,034,406,956	1.0460
2005	179,611,684	2.23%	5,654,906,203	7.54%	5,834,517,887	22,619,624,812	1.0475
2006	186,694,066	3.94%	6,259,830,939	10.70%	6,446,525,005	25,039,323,756	1.0480
2007	194,195,209	4.02%	6,840,335,733	9.27%	7,034,530,942	27,361,342,932	1.0466
2008	201,629,315	3.83%	7,392,958,751	8.08%	7,594,588,066	29,571,835,004	1.0460
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0459
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0449
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0462
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0460
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0457

Source: Santa Clara County Assessed Value Report

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

Schedule 6



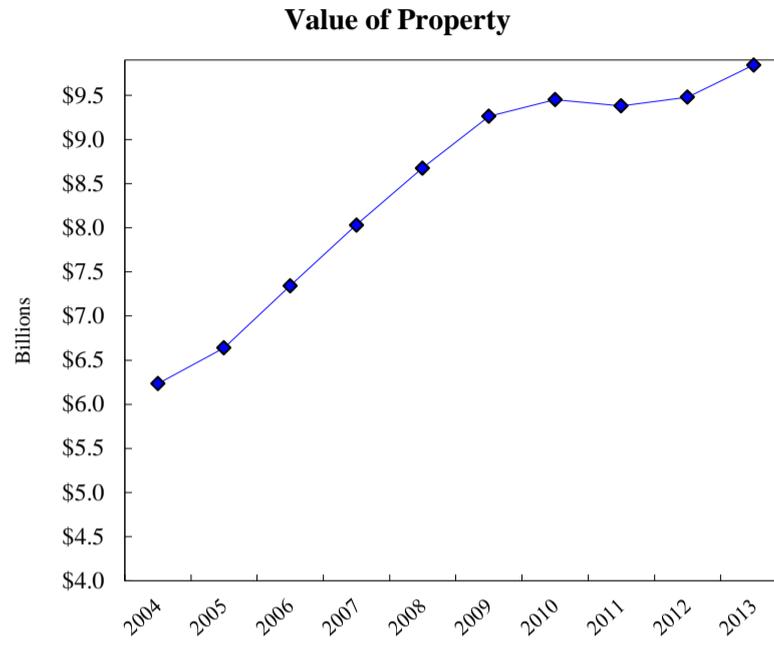
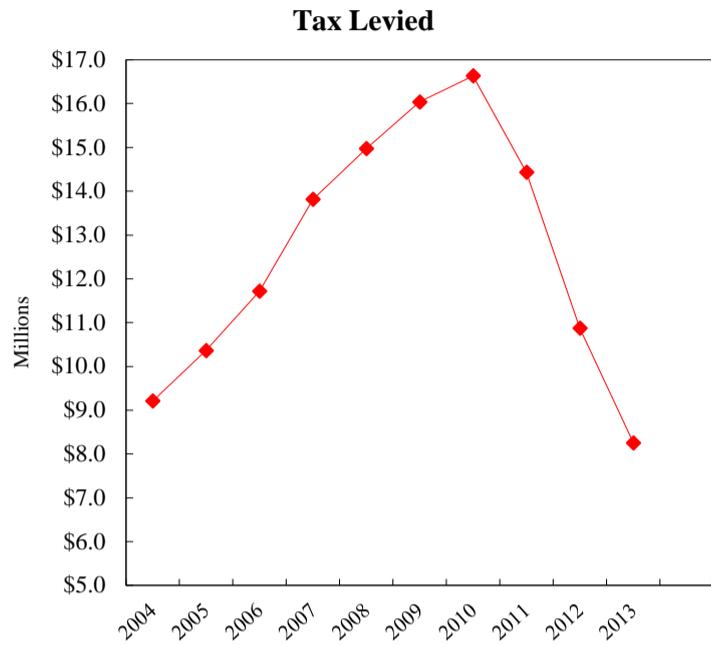
<u>Fiscal Year</u>	<u>Basic County Wide Levy</u>	<u>County Retirement Levy</u>	<u>Santa Clara Valley Water District</u>	<u>County Direct Rate Subtotal</u>	<u>School District Bonds and Loans</u>	<u>Total</u>
2004	1.0000	0.0388	0.0087	1.0475	0.0749	1.1224
2005	1.0000	0.0388	0.0092	1.0480	0.0726	1.1206
2006	1.0000	0.0388	0.0078	1.0466	0.0996	1.1462
2007	1.0000	0.0388	0.0072	1.0460	0.0941	1.1401
2008	1.0000	0.0388	0.0071	1.0459	0.1032	1.1491
2009	1.0000	0.0388	0.0061	1.0449	0.0970	1.1419
2010	1.0000	0.0388	0.0074	1.0462	0.1147	1.1609
2011	1.0000	0.0388	0.0072	1.0460	0.1252	1.1712
2012	1.0000	0.0388	0.0064	1.0452	0.1269	1.1721
2013	1.0000	0.0388	0.0069	1.0457	0.1440	1.1897

Source: Santa Clara County Book of Tax Rates

ASSESSEE NAME	2008/09		2009/10		2010/11		2011/12		2012/13	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Sobrato Interests IV/Sobrato Land Holdings	\$147,774,933	1.86%	\$156,934,561	1.94%	\$150,781,092	1.87%	\$157,554,525	1.93%	\$157,559,245	1.86%
Boccardo Corporation	\$20,519,274	0.26%	\$37,747,020	0.47%	\$36,839,021	0.46%	\$37,173,877	0.46%	\$37,550,368	0.44%
Knowles Los Gatos LLC	\$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%
SRI Old Town LLC	\$29,045,463	0.37%	\$29,626,371	0.37%	\$29,556,155	0.37%	\$29,778,712	0.37%	\$30,374,286	0.36%
CH Realty IV Downing LP	\$28,815,000	0.36%	\$29,391,300	0.37%	\$19,000,000	0.24%	\$19,143,068	0.23%	\$19,525,927	0.23%
Hercules Holding II LLC	\$18,417,111	0.23%	\$25,886,805	0.33%	\$25,865,452	0.32%	-	0.00%	-	0.00%
Health Care REIT Inc, 750 University LLC	\$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%
Grosvenor USA Ltd.	\$22,000,000	0.28%	\$21,000,000	0.26%	\$20,950,229	0.26%	-	0.00%	\$12,137,999	0.14%
Alberto Way Holdings LLC	\$20,547,900	0.26%	\$20,958,858	0.26%	\$20,909,185	0.26%	\$21,066,630	0.26%	\$22,437,962	0.27%
D&K Los Gatos LLC	\$20,516,687	0.26%	\$20,927,018	0.26%	\$20,877,418	0.26%	\$21,034,623	0.26%	\$23,145,064	0.27%
CHL Ventures LP	\$14,041,573	0.18%	\$20,400,000	0.26%	\$20,351,651	0.25%	\$15,284,324	0.19%	\$15,590,010	0.18%
San Jose Water Works	\$19,767,599	0.25%	\$20,162,950	0.25%	\$20,115,163	0.25%	\$20,266,630	0.25%	\$20,671,962	0.24%
Toll House Hotel LLC	\$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%
Grade Way Associations VI	\$16,127,937	0.20%	\$18,986,145	0.24%	\$15,848,626	0.20%	\$15,696,089	0.19%	-	0.00%
Lyon Baytree Apartments LLC	\$14,151,237	0.18%	\$14,434,261	0.18%	-	0.00%	-	0.00%	\$14,798,651	0.17%
KSL Capital Partners	\$16,722,748	0.21%	\$14,161,525	0.18%	\$14,111,407	0.18%	\$14,177,039	0.17%	\$14,430,123	0.17%
Los Gatos Hotel Corp.	\$27,838,903	0.35%	\$14,030,096	0.18%	\$39,960,114	0.50%	\$41,698,751	0.51%	\$42,532,721	0.50%
David A. and Shari Flick	-	0.00%	\$13,906,273	0.17%	\$15,978,009	0.20%	\$15,683,979	0.19%	\$15,617,134	0.18%
Pter R. Hofman	-	0.00%	-	0.00%	\$14,614,447	0.18%	\$14,724,487	0.18%	\$15,018,971	0.18%
Paul H. Roskoph	-	0.00%	-	0.00%	\$13,247,124	0.16%	-	0.00%	-	0.00%
Elizabeth K. Dodson	-	0.00%	\$12,696,924	0.16%	-	0.00%	\$12,926,457	0.16%	\$13,416,452	0.16%
Health Care Property Partners	-	0.00%	\$12,617,140	0.16%	-	0.00%	-	0.00%	-	0.00%
BR3 Partners	\$27,844,216	0.35%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Community Hospital of Los Gatos Inc.	\$21,182,595	0.27%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Ohana University Ave. LLC	\$17,081,971	0.21%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Robert M. Granum II	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
GS Baytree LP	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Robson Homes LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
GHC Shannon Valley Ranch LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Sports Resorts Inc.	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Good Samaritan Hospital LP	-	0.00%	-	0.00%	-	0.00%	\$19,372,795	0.24%	\$19,530,183	0.23%
Windrose Los Gatos Properties LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Grade Way Associates VI	-	0.00%	-	0.00%	\$14,400,050	0.18%	\$14,508,482	0.18%	-	0.00%
Park Row East Apartments Ltd.	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
LG Business Park LLC	-	0.00%	-	0.00%	-	0.00%	18,342,931.00	0.23%	-	0.00%
Green Eyes LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$12,542,555	0.15%
<b>Total - Principal taxpayers</b>	<b>\$ 561,809,638</b>	<b>7.07%</b>	<b>\$ 560,999,695</b>	<b>6.95%</b>	<b>\$ 582,218,627</b>	<b>7.24%</b>	<b>\$ 583,795,249</b>	<b>7.16%</b>	<b>\$ 584,030,904</b>	<b>6.90%</b>
<b>Total - All real properties assessed by the Town (1)</b>	<b>\$7,949,991,620</b>		<b>\$8,075,202,207</b>		<b>\$8,043,793,200</b>		<b>\$8,151,530,237</b>		<b>\$8,464,491,112</b>	

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

Source Data: California Municipal Statistics, Inc.



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2004	\$ 4,834,464	\$ 4,376,896	\$ 9,211,361	\$ 5,480,295,734	\$ 753,210,332	\$ 6,233,506,066
2005	5,348,483	5,013,350	10,361,833	5,834,517,887	804,306,862	6,638,824,749
2006	5,739,846	5,976,062	11,715,909	6,446,525,005	897,448,660	7,343,973,665
2007	6,386,562	7,425,925	13,812,488	7,034,530,942	996,479,040	8,031,009,982
2008	6,901,935	8,072,176	14,974,111	7,594,588,066	1,081,483,541	8,676,071,607
2009	7,465,403	8,574,251	16,039,654	8,166,393,709	1,096,883,582	9,263,277,291
2010	7,608,137	9,022,863	16,630,999	8,317,387,662	1,134,135,499	9,451,523,161
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662

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

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

Schedule 9

Fiscal Year	Governmental Activities			Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation				
2004	\$ 1,615,000	\$ 10,515,000	\$ -	\$ 12,130,000	\$ 12,130,000	8.6%	419.56
2005	1,445,000	10,300,000	-	11,745,000	11,745,000	7.8%	405.49
2006	1,270,000	10,075,000	-	11,345,000	11,345,000	6.9%	389.65
2007	1,085,000	9,845,000	-	10,930,000	10,930,000	6.2%	372.25
2008	890,000	9,610,000	-	10,500,000	10,500,000	5.9%	348.03
2009	685,000	9,370,000	-	10,055,000	10,055,000	5.9%	329.70
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	14.1%	820.24
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	13.5%	835.72
2012	-	-	-	-	-	0.0%	<sup>1)</sup> 0.00
2013	-	-	-	-	-	0.0%	0.00

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

2012/13 Assessed Valuation:	\$8,767,688,641
Redevelopment Incremental Valuation	\$0 (2)
Adjusted Assessed Valuation:	<u>\$8,767,688,641</u>

DIRECT AND OVERLAPPING BONDED DEBT:	<u>% Applicable</u>	<u>Debt at June 30, 2013</u>	<u>Estimated Share of Direct and Overlapping Debt at June 30, 2013</u>
<b>Overlapping Tax &amp; Assessment Debt</b>			
Santa Clara County	2.812%	\$ 805,800,000	\$ 22,659,096
West Valley-Mission Community College District	9.993%	\$ 308,533,073	\$ 30,831,710
Campbell Union High School District	8.204%	\$ 156,055,000	\$ 12,802,752
Los Gatos-Saratoga Joint Union High School District	33.176%	\$ 46,905,000	\$ 15,561,203
Cambrian School District	0.432%	\$ 17,804,944	\$ 76,917
Campbell Union High School District	8.579%	\$ 146,472,432	\$ 12,565,870
Los Gatos Union School District	70.014%	\$ 107,180,000	\$ 75,041,005
Saratoga Union School District	0.043%	\$ 42,987,102	\$ 18,484
Union School District	20.596%	\$ 68,079,958	\$ 14,021,748
Town of Los Gatos 1915 Act Bonds	100.000%	\$ 135,000	\$ 135,000
Santa Clara Valley Water District Benefit Assessment District	2.812%	\$ 123,100,000	\$ 3,461,572
<b>Total Overlapping Tax and Assesmet Debt</b>			<b><u>\$ 187,175,357</u></b>
<b>Overlapping General Fund Debt</b>			
Santa Clara County General Fund Obligations	2.812%	\$ 819,956,840	\$ 23,057,186
Santa Clara County Pension Obligations	2.812%	\$ 378,994,822	\$ 10,657,334
Santa Clara County Board of Education Certificates of Participation	2.812%	\$ 10,400,000	\$ 292,448
West Valley-Mission Community College District General Fund Obligations	9.993%	\$ 65,435,000	\$ 6,538,920
Campbell Union High School District General Fund Obligations	8.204%	\$ 11,325,579	\$ 929,151
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	33.176%	\$ 8,420,000	\$ 2,793,419
Saratoga Union School District Certificates of Participation	0.043%	\$ 5,540,000	\$ 2,382
Santa Clara County Vector Control District Certificates of Participation	2.812%	\$ 3,455,000	\$ 97,155
Midpeninsula Regional Open Space Park District General Fund Obligations	4.848%	<u>\$ 135,649,717</u>	<u>\$ 6,576,298</u>
<b>Total Overlapping General Fund Debt</b>			<b><u>\$ 50,944,293</u></b>
<b>Total of Overlapping Debt</b>			<b><u>\$ 238,119,650</u></b>
<b>Direct Debt</b>			
Town of Los Gatos Certificates of Participation	(2)		\$ -
<b>Total Direct Debt</b>			<b><u>\$ -</u></b>
<b>Total Direct and Overlapping Bonded Debt</b>			<b><u>\$ 238,119,650</u></b>

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

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

Ratios to 2012/13 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 2.16%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt: 0.00%

Combined Total Debt: 3.01%

Ratios to redevelopment Incremental Valuation ( \$933,300,666):

Total Overlapping Tax Increment Debt: 2.45%

Source Data: California Municipal Statistics, Inc.

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

Schedule 11

Legal Debt Margin Calculation  
 for Fiscal Year 2013/14

Assessed Value	8,420,918,232
Debt limit	1,263,137,735
Debt applicable to limit:	-
Legal Debt Margin	<u>1,263,137,735</u>

	Fiscal Year									
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Debt limit	\$ 788,790	\$ 842,159	\$ 932,872	\$ 1,019,970	\$ 1,102,766	\$ 1,185,727	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138
Debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>\$ 788,790</u>	<u>\$ 842,159</u>	<u>\$ 932,872</u>	<u>\$ 1,019,970</u>	<u>\$ 1,102,766</u>	<u>\$ 1,185,727</u>	<u>\$ 1,204,551</u>	<u>\$ 1,195,035</u>	<u>\$ 1,216,131</u>	<u>\$ 1,263,138</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Notes:**

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

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

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2004	28,911	\$ 1,415,425	\$ 48,958	42.52	5,529	6.7%
2005	28,965	1,508,526	52,081	44.04	5,610	5.5%
2006	29,116	1,644,239	56,472	44.19	5,718	4.7%
2007	29,362	1,764,862	60,107	44.64	5,742	4.8%
2008	30,170	1,781,780	59,058	44.86	5,870	6.0%
2009	30,497	1,701,153	55,781	45.35	6,006	11.8%
2010	30,802	1,787,070	58,018	45.09	6,100	11.3%
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	1,938,621	64,093	45.80	6,420	6.8%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2010)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) California State Dept of Finance - county per capita at: [labormarketinfo.edd.ca.gov](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.

	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13	
	Employees	Percentage of Total Town Employment												
<u>Major Employers</u>														
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.09%	2,000	12.89%	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%	2,000	13.29%
El Camino Hospital, Los Gatos	-	0.00%	-	0.00%	800	4.92%	700	4.26%	700	4.41%	700	4.86%	700	4.65%
Community Hospital of Los Gatos	730	4.78%	730	4.70%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Los Gatos Union School District	300	1.96%	300	1.93%	300	1.85%	300	1.83%	300	1.89%	275	1.91%	275	1.83%
Los Gatos-Saratoga High School District	300	1.96%	300	1.93%	300	1.85%	300	1.83%	300	1.89%	270	1.88%	270	1.79%
Netflix	280	1.83%	280	1.80%	-	0.00%	280	1.70%	800	5.04%	800	5.56%	900	5.98%
Safeway	250	1.64%	250	1.61%	200	1.23%	250	1.52%	250	1.57%	250	1.74%	250	1.66%
Alain Pinel Realtors	220	1.44%	220	1.42%	-	0.00%	220	1.34%	220	1.39%	150	1.04%	150	1.00%
Verizon	200	1.31%	200	1.29%	200	1.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.31%	200	1.29%	200	1.23%	200	1.22%	200	1.26%	200	1.39%	200	1.33%
Town of Los Gatos	152	0.99%	135	0.87%	189	1.16%	148	0.90%	138	0.87%	136	0.94%	138	0.92%

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

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

Schedule 14

Function/Program	Full-time-Equivalent Employees as of June 30									
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
General Government	23.10	21.35	19.95	20.75	20.50	19.95	18.35	18.90	20.15	20.40
Police	69.00	65.30	62.00	62.00	61.00	61.00	60.00	59.50	60.50	58.00
Culture and Recreation	4.25	4.25	4.25	4.25	5.25	5.25	5.25	3.25	-	-
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-
Library	10.75	11.10	10.35	10.35	10.35	10.35	10.35	8.60	8.60	8.60
Planning	18.60	19.60	18.80	18.80	18.80	18.80	17.80	15.00	16.00	17.50
Public Works	41.00	37.00	37.00	34.00	34.00	37.00	35.00	32.50	32.00	31.00
<b>Total</b>	<b>167.70</b>	<b>159.60</b>	<b>153.35</b>	<b>151.15</b>	<b>150.90</b>	<b>153.35</b>	<b>147.75</b>	<b>138.75</b>	<b>138.25</b>	<b>135.50</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.

**FUNCTION/PROGRAM**

	<b>Fiscal Year</b>					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
<b>General government</b>						
Building Permits Issued						
Residential Permits Issued	762	676	733	711	747	747
Residential Permits Value	69,104,606	48,162,274	51,090,808	42,974,043	66,072,341	66,072,341
Commercial Permits Issued	127	24	117	128	107	107
Commercial Permits Value	27,232,018	4,356,307	7,908,146	31,289,431	17,663,124	17,663,124
Publically Owned Permits Issued		2	11	11	-	-
Publically Owned Permits Value		2,308,160	5,732,014	40,000	-	-
Residential Parking Permits						
Number of Special Event Permits Issued	72	76	87	96	89	125
Number of Annual Permits Issued	621	752	686	713	1,223	1,320
City Clerk						
Number of Council Resolutions Passed	130	143	167	76	59	74
Number of Ordinances Passed	6	13	16	6	13	20
Number of Contracts Passed	221	197	206	218	227	220
General Services						
Number of Purchase Orders Issued	557	396	365	336	358	318
<b>Police</b>						
Physical Arrests	1,165	925	831	872	690	648
Parking Violations	4,041	11,148	11,512	14,377	12,938	11,991
Traffic Violations	1,714	2,588	3,008	2,718	2,908	3,333
DUI Arrests	100	88	110	98	89	86
<b>Library</b>						
Circulated e-audiobooks	965	1,516	1,852	1,994	3,388	4,774
<b>Other Public Works</b>						
Street Resurfacing/Overlay/Reconstruction (miles)	2.1	3.5	4.7	4.7	8.0	8.0
ADA Compliance: Curb Ramps	9	9	13	17	19	19
Traffic Circles	1	1	1	1	1	1
Street Poles	1,575	1,575	1,605	1,708	1,611	1,611
<b>Planning and Development Department</b>						
Building & Safety Inspections Performed	11,110	10,367	9,055	10,977	11,738	11,903
Redevelopment: Number of active projects	4	3	3	1	-	-

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

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Source: Town of Los Gatos, Finance Department

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

Schedule 16

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

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

Source: Town of Los Gatos, Finance Department

***Other Independent Auditor's Reports***



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Los Gatos (the "Town") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 22, 2013.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion



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

**Purpose of this Report**

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

C & A LLP

San Jose, California  
December 22, 2013